

Massey-Ferguson Limited

Annual Report 1975



AR53

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Cover: In the past five years Massey-Ferguson's sales have risen nearly 150 per cent to \$2.5 billion. In this period the company also has been able to develop a firm foundation for future growth which is described in this year's Annual Report.

Financial Highlights

Operating Summary

(Millions of U.S. Dollars)

	1975	1974
Net sales	\$2,513.3	\$1,784.6
Net income	94.7	68.4

Financial Status

(Millions of U.S. Dollars)

Net current assets	\$616.4	\$501.4
Long-term debt	499.6	342.2
Capital and retained earnings	641.5	523.6

Per Common Share

(U.S. Dollars)

Income (after payment of preferred dividend in 1975)	\$5.08	\$3.75
Common dividends paid (Canadian Dollars)	0.90	0.80
Equity	33.00	28.69

Statistical Data

Number of employees	64,572	60,822
Number of shareholders		
Common	35,844	34,541
Preferred	5,046	—
Shares Outstanding (thousands)		
Common	18,250	18,248
Preferred	1,600	—



Massey-Ferguson Limited

200 University Avenue, Toronto, Canada M5H 3E4

Directors

*Albert A. Thornbrough
President and Chief Executive Officer

The Marquess of Abergavenny

Alex E. Barron

Henry Borden, Q.C.

Charles L. Gundy

**Member Executive Committee*

Honorary Directors: H. J. Carmichael and Lord Crathorne

*John A. McDougald
Chairman, Executive Committee

Gilbert W. Humphrey

John D. Leitch

*A. Bruce Matthews

*Maxwell C. G. Meighen

John E. Mitchell

A. M. Runciman

John G. Staiger

*E. P. Taylor

Trumbull Warren

*Colin W. Webster

The Duke of Wellington

Corporate Management

A. A. Thornbrough
President and Chief Executive Officer

J. G. Staiger
Senior Vice President

J. A. Belford
Vice President Personnel & Industrial Relations

P. J. Dixon
Director Management Information Systems

Other Officers of the company:

V. Koury, W. H. Mason and G.F. Ryan, Assistant Treasurers

P. N. Breyfogle
Executive Vice President Europe

J. D. Goodson
Vice President Industrial & Construction Machinery

R. W. Main
Secretary and Director Legal Services

J. E. Mitchell
Executive Vice President Americas

D. G. Kettering
Vice President Farm Machinery

W. A. Murray
Director Logistics

H. Vajk
Executive Vice President Asia/Africa/Australasia

R. W. Main
Vice President Administration

H. A. R. Powell
Assistant to the President

P. J. Wright
Executive Vice President Engines

J. G. Staiger
Vice President Corporate Operations

V. A. Rice
Comptroller

D. Barker
Treasurer

E. H. Weichel
Director Public Affairs

R. D. Garland and D. C. Hayes, Assistant Secretaries

Operations Management

Americas — J. E. Mitchell, *Executive Vice President*

Director Finance, W. A. Fredericks

Director Special Operations, J. A. Engelbrecht

Argentina — G. M. Yeatts, *General Manager*

Brazil — J. A. Engelbrecht, *General Manager*

Export Operations — C. R. Kalb, *General Manager*

Mexico — A. Baca, *General Manager*

North America — J. E. Mitchell, *General Manager*

Senior Director Operations, B. M. Brown

Senior Director Finance, W. A. Fredericks

Canada — MF Industries Ltd.

President, W. K. Mounfield

Europe — P. N. Breyfogle, *Executive Vice President*

Assistant to the Executive Vice President, S. V. Bishop

Director Finance, J. A. O'Reilly

Director ICM Marketing Staff, A. N. Wright

Director Parts Staff, A. Jebson

Director Product Staff, P. Tiberghien

Director Technical Staff, G. E. Smith

Export Europe — J. D. Parsons, *General Manager*

France — P. Poniatowski, *General Manager*

Italy — J. J. Campbell, *General Manager*

United Kingdom — R. M. Jennings, *General Manager*

West Germany — Dr. U. Brinkmann, *General Manager*

Asia/Africa/Australasia — H. Vajk, *Executive Vice President*

Director Business Development Asia/Pacific, H. P. Weber

Director Marketing & Supply, W. A. Critchley

Director Special Operations, F. N. Wilkinson

Director Technical Services, K. J. M. Godlewski

Australia — E. K. Coghill, *General Manager*

International Sales & Service — A. B. Behr, *Director*

Polish Projects — R. Ramsay, *Director*

South Africa — Dr. L. B. Knoll, *General Manager*

Western Asian Operations — P. H. Brealey, *Director*

Engines Group — P. J. Wright, *Executive Vice President*

Group Director Finance & Administration Staff, A. J. Parsons

Group Director Product Staff, R. Bertodo

Eastern Hemisphere Area — R. C. Clarke, *Executive Director*

Latin America & Caribbean Area — J. M. Felker, *Executive Director*

North American Area — K. E. Glass, *Executive Director*

United Kingdom Area — C. J. Hind, *Executive Director*

Brazil — J. Silveira, *General Manager*

Report of the Directors to the Shareholders

For the year ended October 31, 1975

In last year's Annual Report we noted that the economic recession which became evident in the latter half of 1974 was having a negative effect on many sectors of industry and that the world's monetary and financial imbalances had not been resolved. Despite these and other factors, the outlook for Massey-Ferguson was for continuing growth in 1975.

In fact, 1975 proved to be not merely another year of growth but one in which significant breakthroughs were achieved in production, sales and net income. As the year progressed, supply problems diminished and our productive capabilities were further increased with the coming on stream of new and expanded facilities. On a world-wide basis, production of diesel engines was up 19 per cent, tractors 12 per cent, and combines 11 per cent. Our sales and income performance in 1975, quarter by quarter, exceeded 1974 and culminated in a record fourth quarter and a record year. Consolidated sales of \$2,513 million were 41 per cent greater than 1974 and net income of \$94.7 million was ahead by 38 per cent. Net income per common share was \$5.08 compared to \$3.75 in 1974.

Significant sales increases were recorded for all product groups, assisted, in the case of industrial and construction machinery, by the broadening of our product lines as a result of the acquisition of the Hano-mag Division of Rheinstahl A.G., West Germany, in September 1974.

The geographical breakdown of sales reveals some significant changes

over the last five years and is worthy of comment. North America's share of the company's total sales was 30 per cent in 1975 compared to 35 per cent in 1971; Europe's share at 32 per cent has declined from 38 per cent; Latin America's share was 20 per cent compared to 12 per cent; and the markets in Asia, Africa and Australasia were 18 per cent compared to 15 per cent. These shifts in relationships indicate the growing importance for Massey-Ferguson of markets outside North America and Europe — markets in which we have unmatched distribution strength and a high degree of product acceptability.

North American sales, which are reported on a settlement basis and represent sales to the final customer, showed improvement quarter by quarter and were indicative of the increasing strength of our position in that market. The improvement over the comparable periods of 1974 was three per cent in the first quarter, 15 per cent in the second, 27 per cent in the third, and 32 per cent in the fourth quarter. The sales pattern for other major companies in the farm machinery industry in North America was notably different. These companies, which continue to report sales on a wholesale basis (i.e. a sale is recorded when shipment is made to the dealer), showed large gains in wholesale sales in the first half of the year, but the rates of gain in the third and fourth quarters dropped sharply in response to a rising level of dealer inventories.

The relationship of costs to sales was satisfactory in view of the highly

inflationary environment during 1975 and the impact of price controls in some countries. Cost of goods sold at 77.4 per cent was down slightly from 1974 in spite of increased costs in the third quarter caused by a six-week strike at our Coventry tractor plant in the United Kingdom.

Interest expense was sharply increased in 1975 as a result of higher borrowings to support record production and sales levels. For example, borrowings for these purposes increased in Brazil and the United Kingdom where rates are considerably above North American levels.

The world's major currencies continued to float in 1975 and, with only few exceptions, lost at least a portion of their prior gains against the U.S. dollar. Consequently, Massey-Ferguson experienced exchange losses on the exposed net asset positions in several of its operating subsidiaries. In particular, in the fourth quarter a major devaluation of the South African rand accounted for the greater part of the company's total exchange loss.

In general, translation losses are offset to some extent by gains from normal trading activity with Massey-Ferguson companies in other countries. Between sterling and the U.S. dollar, which are the world's major trading currencies, the company's exchange vulnerability remains minimal because of the large volume of inter-company trading. In the case of South Africa, Australia and Brazil, insufficient trading opportunities exist at present to mitigate against devaluation of their currencies.

Capital expenditures in 1975 were significantly above the level of 1974 and amounted to \$170 million, the highest in our history.

For 1976, expenditures are planned at the same level as 1975 and consequently additions to fixed assets

Sales	1975 (Millions of U.S. Dollars)	1974	% Increase
Farm Machinery	\$1,812	\$1,296	40
Industrial & Construction Machinery	355	240	48
Engines	295	205	44
Other Products	51	44	17
Total	\$2,513	\$1,785	41

for the three-year period 1974-76 are expected to reach \$450 million. Most of the expenditures of this period are in support of our long-term program to develop new products, to increase capacity and to obtain more effective utilization of existing facilities.

Financing

Following shareholder approval of the creation of \$100 million par value preferred shares, an issue of \$40 million of these shares was successfully placed in Canada during April, 1975.

Long-term debt was placed largely in the Eurodollar market for a consolidated net increase of \$157 million. These funds have been applied against short-term debt.

Financial ratios, while not yet at levels considered fully acceptable to the Directors and management, are expected to improve as a result of the financing steps taken in 1975 and of further financing and management actions in 1976.

With the June 15 payment, the quarterly dividend rate on the common shares was raised to 25 cents Canadian funds. Under the anti-inflation program of the Canadian Government announced on October 13, no increase in the dividend rate is permissible at this time.

Associate Companies and Licensees

Our Associate companies, listed on page 39, reported sales in 1975 of \$520 million, an increase of 55 per cent over 1974. Many products of our Associate companies bear the Massey-Ferguson or Perkins brand names. Their sales and those of our licensees are not included in our published figures.

The largest of our Associates, Motor Iberica S.A. of Spain, reported sales of \$350 million in 1975. Motor Iberica has been expanding its production

not only for its major product line, motor trucks, but also for tractors, engines and major components for which it was a significant supply source for Massey-Ferguson in 1975. Our Spanish Associate is continuing its programs to achieve a production rate of 30,000 tractors and 100,000 diesel engines annually.

Our Associate, Massey-Ferguson de Mexico S.A., achieved record sales in 1975 of \$49 million. These sales include some imports of Massey-Ferguson machines and parts supplied from North America, the United Kingdom, Argentina and Brazil to support the growing demand for farm machinery. Local production of tractors exceeded 4,000 units, an increase of 60 per cent over 1974.

We wish to record our recognition of the growing strength of our Associates and licensees and our appreciation of their support of our world-wide operations. Each is making a valuable contribution also to the economic development of its own country.

Industrial Relations

Throughout 1975 the industrial relations climate was relatively stable for the company's operations although many countries continued to be affected by economic problems and social unrest. The major problem areas were the United Kingdom and France and, to a lesser extent, Argentina and Italy. Elsewhere there were no serious disruptions of production.

In the United Kingdom, our annual negotiations were conducted in a highly inflationary and faltering economic environment where settlements were preceded by strikes of four weeks at the Manchester factory and six weeks at the Coventry tractor plant. There were minor disruptions at the Peterborough engine facilities, but a satisfactory annual agreement

was reached without a work stoppage. In mid-1975, prices and incomes regulations were re-introduced, but their full impact will not be felt until 1976. By the end of 1975, however, wage increases seemed successfully restrained by guidelines but the economy generally remained depressed.

In France, a series of staggered strikes throughout the community of Beauvais disrupted our tractor assembly line during October. For the year as a whole, however, we experienced less production loss through industrial disputes or political demonstrations than in either of the previous two years.

In Argentina and Italy, political and economic conditions resulted in some production disruptions in our plants although we did not experience any prolonged stoppages.

There were no major labour negotiations in North America in 1975 and there were no disputes affecting production. The current three-year agreements run to October, 1976 in the United States and to September, 1977 in Canada.

Board and Senior Management Changes

Sir Montague Prichard, Executive Vice President Engines, retired from the company and resigned as a Director effective April 1, 1975. Sir Monty's long service as an executive of the company and as a Director is much appreciated and the outstanding contribution of the Perkins Engines Group under his direction is a credit to his foresight and dedication to the company's objectives.

E. P. Taylor, who has served as a Director since 1942 and as a member of the Executive Committee since its formation in 1947, has indicated his wish to retire at the Annual Meeting. Mr. Taylor's service spans a 34-year

period during which many strategic decisions shaped the company's course towards its present record level of achievement. His contributions to the company's growth and his wise counsel, particularly in periods of difficulty, are warmly appreciated. In recognition of Mr. Taylor's long and valuable service, the Board has appointed him an Honorary Director effective upon his retirement.

In recognition of their valued contributions, two former Directors of long service have been appointed Honorary Directors: H. J. Carmichael who retired on March 7, 1973, after 26 years as a Director, and Lord Crathorne who served for 14 years, retiring on March 7, 1975.

A number of senior management changes were necessary following the retirement of Sir Montague Prichard early in 1975. P. J. Wright, formerly Executive Vice President Europe, was appointed Executive Vice President Engines. P. N. Breyfogle, formerly Vice President Corporate Operations, was appointed Executive Vice President Europe, and J. G. Staiger, Senior Vice President, assumed the additional responsibilities of Vice President Corporate Operations. V. A. Rice, formerly Deputy Managing Director, Perkins Engines Group, was appointed Corporate Comptroller replacing W. A. Fredericks, who was appointed Director Finance, Americas Region.

Effective November 1, 1975, E. H. Weichel joined the company as Director Public Affairs.

Outlook for 1976

In the industrialized countries of the world, the current outlook is for a slowing down of the rates of inflation and a progressive improvement in industrial production through 1976.

The fundamentals of supply and demand for agricultural products

world-wide continue to be favourable for farmers and should enable the company's sales of farm machinery to exceed \$2 billion in 1976.

In most industrialized countries, the major exception being the United Kingdom, forecasts of a higher level of housing starts as well as stimulative government programs should permit an upturn for the construction machinery industry as 1976 progresses. Our industrial and construction machinery sales are expected to achieve an annual rate of approximately \$500 million as we continue the introduction of Hanomag machines into our world-wide distribution system.

The Perkins Engines Group now has the productive capability to meet the demands of its third-party customers and we believe that diesel engines

will begin to benefit from the long-term, high growth rate discussed later in the Report.

In summary, we expect our sales and income will show further improvement in 1976 supported by our distribution strength in the world's growth markets, by new and improved products and by a greater productive capability.

We extend appreciation to our employees, distributors and dealers whose efforts permitted the achievement of another record year in 1975.

On behalf of the Board,

Albert A. Thornbrough

Albert A. Thornbrough
President and Chief Executive Officer
Toronto, January 31, 1976.

A permanent exhibit contributed by Massey-Ferguson which dramatizes the activities of the Food and Agriculture Organization was unveiled in October at the United Nations building in New York by Albert A. Thornbrough and Dr. Addeke H. Boerma who since has retired as Director General of FAO.



Forming the Foundation

The improvement in sales and income in 1975 is consistent with the pattern of growth that began in 1971. It is significant that this growth has been sustained in each of our major product lines: farm machinery, industrial and construction machinery and diesel engines.

The growth of Massey-Ferguson as a multinational enterprise with three major product categories is based upon a complex infrastructure formed by acquisition, purchase and expansion of facilities and by integration, product development and a global distribution system.

Growth of Manufacturing Base

In the 23 years since the merger of the Massey-Harris and Ferguson companies, acquisitions have been a major factor in our growth. Some of the more significant acquisitions are shown below.

Purchases of major manufacturing facilities also were made during this period; for example, in 1959, the Standard Motor's tractor plant in the United Kingdom and in 1974, the White Motor's engine plant in the United States.

Thus, Massey-Ferguson has developed a manufacturing base of 50 plants containing 25 million sq. ft. and located in 12 countries.

In addition, our manufacturing base has been broadened by arrangements made with Associate companies or licensees in 18 other countries.

Growth by Integration

Continued increases in the size and number of plants, however, will not themselves generate true corporate growth. To obtain the maximum benefits of large-scale production, capacity must be carefully extended and stretched.

Highly productive results have been secured from each major capital investment through the use of our world-wide production scheduling

system and our logistics network of multinational sources. In addition, product costs continue to be kept under control by product integration — switching from buy to make.

For example, since 1960 Perkins has increased by more than 50 per cent the value of major engine components manufactured internally; production facilities for hydraulic cylinders have been added in Eschwege, Germany; and an internal source for crawler tracks and under-carriage components has been obtained by acquiring an interest in Simmel SpA, Italy.

Through product design and manufacturing planning, emphasis continues to be placed upon interchangeability and commonality to obtain cost benefits and sourcing flexibility.

Massey-Ferguson has adopted advanced data processing and communications technology and has devised comprehensive management systems to ensure that all aspects of our business are effectively coordinated, planned and controlled.

Growth in World Markets

In world markets, the company has been able to build an impressive export business based on special marketing techniques of the combined Massey-Harris and Ferguson

organizations. Their merger established Massey-Ferguson in more than 50 markets by 1957 and today we are doing business in 190 countries.

The presentations which follow, on farm machinery, industrial and construction machinery and diesel engines, set forth the important developments of the 1971-75 period, and the opportunities which derive from them for growth in 1976 and beyond.

Growth by Product Development

During the past five years, Massey-Ferguson has invested heavily in engineering and product development. Larger and improved tractors, combines, balers, forage harvesters and tillage and planting machines have been introduced. Our line of industrial machinery has been upgraded by the introduction of higher-specification backhoes, loaders and integrated tractor-backhoe loader units. By acquiring Hanomag we dramatically expanded our line of heavy construction machinery. Light-weight, four-cylinder diesel engines and larger capacity V8's have been introduced.

A striking example of product innovation was the development in Australia of a sugar cane chopper which made possible the mechanization of cane harvesting.

Date	Country	Acquisition	Products
1957	USA	Midwestern Industries	loaders, backhoes
1959	UK	Perkins Engines	diesel engines
1960	Italy	Landini	tractors, crawlers
1961	India	TAFE 49%	tractors
1961	S. Africa	SAFIM	implements
1965	USA	Badger-Northland	barn and forage equipment
1966	Spain	Motor Iberica 37%	tractors, trucks, engines
1969	Argentina	Rheinstahl-Hanomag-Cura	tractors
1969	Mexico	Ransomes	implements
1970	Germany	Eicher	tractors
1974	Germany	Hanomag	construction equipment

Farm Machinery

The five years 1971-1975 saw unprecedented growth in the farm machinery industry. For Massey-Ferguson, demand in most markets exceeded production capacity in three of the five years, and sales increased from \$728 million in 1971 to \$1,812 in 1975.

World-wide annual production of Massey-Ferguson tractors increased 45 per cent in the 1971-1975 period and was 175,630 units in 1975. An increase in tractor production of 44 per cent in North America and 300 per cent in Brazil was achieved. Our production in Argentina and Italy as well as the production of our Associates in Spain and Mexico have shown strong growth during this period.

Our combine harvester production increased 62 per cent during this five-year period.

Americas

North America

Demand continued at high levels in Canada and the United States throughout 1975. Dealer inventories, seriously depleted by high demand and production capacity limitations in 1973 and 1974, have been somewhat replenished. In tractors over 100 horsepower (both two-wheel and four-wheel drive), domestic and export demand continue to outrun our capacity. Combines — especially the popular MF 760 and 750 models introduced during the last four years — continue in strong demand and stocks at fiscal year-end were at a minimal level.

The Massey-Ferguson dealer has shown consistent, solid growth since 1971, and has contributed greatly to the over-all strength of North American Operations. Indicative of this growth in the last five years is the fact that the number of dealers with annual sales in excess of \$500,000 has increased tenfold.

Major products introduced in North America since 1970:

- The 200 series tractors ranging from 34 to 81 horsepower featuring greatly improved operator comfort and control.
- Improved range of over 100-horsepower, two- and four-wheel drive tractors to give greater reliability and operator comfort.
- MF 750 and 760 combines — two large machines designed to meet the needs of large farms and of harvesting contractors.
- MF 200 and 260 forage harvesters — a product line expansion offering precision cutting of forage.
- MF 124 and 126 balers — improved, higher-capacity machines.
- MF 560 baler producing 1500 lb. round bales — a new, rapidly-growing forage farming practice.

To support sales growth since 1970, facilities expansions have been necessary. A factory in Wayne, Michigan was acquired in 1974 adding 497,000 sq. ft. for production of tractor transmission and axle assemblies.

In Canada, the Brantford Foundry was expanded by more than 30 per cent to 255,000 sq. ft. and the purchase of Kanmet Ltd. added a further 61,000 sq. ft. to our foundry capacity. The Brantford Implement Plant was expanded by more than 50 per cent to 813,000 sq. ft. Recently, construction was begun to add 270,000 sq. ft. to our combine operation at Brantford, increasing space by 33 per cent.

Brazil

In the years 1971-75, dramatic market growth has taken place in Brazil. The national demand for farm tractors expanded from less than 20,000 units in 1971 to 56,000 in 1975, and throughout this period we have retained our market share of approximately 50 per cent.

The tractor factory at Sao Paulo has been increased 145 per cent to 436,000 sq. ft. to meet the growing demand. Additional models were introduced in this period, in the 35- to 90-horsepower class. The 200 series tractors, introduced in North America in 1975, are being launched in Brazil early in 1976.

The combine and implement factory at Canoas has been expanded by 300 per cent to 430,000 sq. ft.

Brazil is now producing 18 per cent of the world's sugar cane crop and production is planned to reach 10 million tons by 1980. Consequently we expect cane harvester sales to grow rapidly over the next five years and we are proceeding with plans to produce these machines in Brazil.

Argentina

Our sales in Argentina rose from \$7 million in 1971 to \$46 million in 1975. During the five years 1971-1975 several Massey-Ferguson tractor models were introduced and further product introductions are planned over the next few years. Market penetration has been substantially improved, rising from 14 per cent in 1971 to 26 per cent in 1975.

Argentina has become a major source for a new hydraulic pump supplied to Massey-Ferguson tractor factories in Latin America and other countries. Significant exports of both tractors and components also have been achieved.

In 1976 agricultural machinery demand is expected to grow in real terms, but the continuing political instability which inhibited 1975 sales makes projections for the domestic market uncertain.

Mexico

During the last five years, sales increased more than threefold to \$49 million from \$13 million in 1971. An implement factory acquired in 1969

provides distributors with a broad range of farm equipment.

Industry demand for tractors nearly doubled from 1974 to 1975. Through our Associate company Massey-Ferguson de Mexico, we have been able to maintain a strong leadership position with 34 per cent of the market.

Supported by the Government's new program to increase food production, demand for farm machinery is expected to continue strong.

Other Latin American Markets

Massey-Ferguson's farm machinery sales more than doubled in the 1971-75 period and our competitive position continues to improve. For 1976, strong demand for tractors and combines and a growing demand for sugar cane harvesters is foreseen.

Europe

Since 1970, we have introduced in the European market the MF 760 combine, new forage harvesters, a new 88-horsepower tractor, the MF 595, and a range of 31- to 84-horsepower tractors with factory-fitted cabs. During 1976, introduction of the 200 series tractors of 34- to 81-horsepower is planned.

In 1975, farm commodity production in Europe again showed a mixed pattern. The general outlook for 1976 is guardedly optimistic although the position of the farmer, now squeezed by rising costs, will depend upon 1976 commodity prices which have not yet been determined for the European Economic Community.

United Kingdom

Sales of the farm machinery industry have nearly doubled since 1971 and reached \$117 million in 1975. MF has, however, been unable to maintain its traditional market leadership because of shortages in recent years. Increased manufacturing capacity assisted by product introductions

planned for 1976 are expected to regain market leadership for Massey-Ferguson.

During the five-year period, facilities have been expanded in Coventry by 200,000 sq. ft. to provide for assembly of tractor cabs which will comply with noise and safety legislation introduced in many European countries. The Kilmarnock factory was expanded by 40,000 sq. ft. to provide greater production capacity for large combines.

France

In France, the largest farm machinery market in Europe, Massey-Ferguson's sales in 1975 were \$132 million, almost double 1971.

To help meet this demand and to provide capacity for exports, factory space at Beauvais and Marquette has been increased by over 400,000 sq. ft., or 25 per cent, since 1971.

A Government investment incentive program ensures high demand during the early part of the fiscal year and products to be introduced during 1976 will support our strong dealer network. Thus, the 1976 outlook for farm machinery sales is bright.

Germany

The total market for farm tractors in Germany has shown a slight decline since 1971 and continues to be fragmented among 16 manufacturers. During this period Massey-Ferguson has increased its share of the tractor market and has doubled its farm machinery sales to reach \$74 million in 1975.

The outlook indicates slightly improved demand in 1976 with a growing emphasis on larger machines, particularly tractors.

Italy

Our farm machinery sales in Italy have increased from \$26 million in 1971 to \$75 million in 1975 with tractor production increasing to 8,500 units. Substantial improvement in market penetration was achieved for tractors in 1975.

Uncertainty as to farm prices makes it difficult to forecast farm machinery prospects for 1976, but further expansion of production for export markets is planned.

Other European Markets

Lack of availability, especially tractors, has restricted sales in most of the past five years, but despite these restrictions, sales have more than doubled.

In 1976 demand is expected to remain at the level of 1975.

Asia, Africa and Australasia

Australia

Sales in 1975 of \$72 million have more than tripled since 1971 and we continue to hold a leading position in the market. Sugar cane harvesters are a major element of the business, and exports during this five-year period have increased each year. An additional model introduced in 1972 reinforced our dominant market position.

The Australian market is expected to continue the trend toward higher horsepower tractors and bigger machines in 1976 because of continuing scarcity of farm labour.



South Africa

MF farm machinery sales in this market increased by 131 per cent, from \$35 million to \$81 million during the period 1971-1975.

In 1971, Massey-Ferguson (South Africa) Limited acquired Slattery, the major South African manufacturer of maize and peanut harvesters. This acquisition has made a major contribution to sales and profits.

South African crop and harvest conditions were very good in 1975. The outlook for 1976 appears favourable and this supports an optimistic forecast for farm machinery sales which are highly dependent on crop results.

Iran

Agreement has been reached for a proposed joint venture with Iranian interests for a project to produce tractors and engines in the 60- to 75-horsepower range reaching an annual capacity of 20,000 tractors and 30,000 engines within five years. Initial quantities of tractors were shipped in 1975 and substantially increased volumes are planned for shipment in 1976 when assembly operations will commence.

Turkey

Turkey has been an important market for agricultural tractors for many years and by 1975 had an industry volume of more than 30,000 units. Massey-Ferguson has participated in this growing market since 1947 and expects to continue as the leading supplier.

Pakistan

Pakistan is striving towards agricultural self-sufficiency and as a result industry sales of tractors have grown from about 2,500 in 1971 to more than 7,000 in 1975. We expect growth to continue and plan to remain a major factor in this market.



World Agriculture in Perspective

Other Territories

The most significant growth opportunity for farm machinery is in that broad spectrum of developed and developing countries which make up the major markets of Africa and Asia.

These markets are expected to remain strong and we have developed plans to continue maximum sales and market presence. Professional counsel on the mechanization needs of these countries has been provided by Massey-Ferguson for many years. These services include advice on agricultural methods, land clearance techniques and machine selection. Close contact is maintained with national and international organizations in providing the specialized agricultural mechanization assistance needed by developing countries.

During 1975, we expanded our training activity in these territories. Extensive use of mobile training schools for farmers and dealers enabled us to take courses and instruction materials directly to field locations.

Poland

In 1975, Massey-Ferguson substantially advanced the undertaking with Agromet Motoimport to expand and modernize the Polish tractor industry. The phased program will lead to an annual production of 75,000 tractors with local manufacture scheduled to begin in 1978.

Outlook

As developing nations strive for agricultural self-sufficiency, long-term projects offer great potential for the farm machinery industry. For oil-rich countries, substantial revenues are available to speed up the mechanization process; for countries strained by the balance of payments burden of oil imports, substitution of local production for imported food will help alleviate economic difficulties. For all developing countries the need to keep pace with the nutritional requirements of expanding populations calls for greatly increased mechanization of farm production in 1976 and the longer term.

Despite continuing world concern with the problems of under-nutrition, food shortages have become more acute in the past year.

Our 1974 Annual Report pointed out that the supply of wheat and feed grains was insufficient to support consumption at the 1973 level, and predicted that farmers could be expected to respond with an all-out effort to boost production of food and feed grains in 1975.

Farmers did respond positively. In 1975 the area of wheat harvested is estimated to be up from 221 million to 234 million hectares, and the area of feed grains from 288 million to 296 million hectares.

Early in the year, crop prospects were favourable and all forecasts pointed to record world grain production. By mid-year, prospects had deteriorated sharply, however, due to hot, dry weather in several major producing areas, including Europe and parts of the U.S. corn belt.

World wheat production in 1975 is estimated at 339 million metric tons, three per cent less than 1974 and eight per cent below the 1973 record. Production of feed grains is estimated at 579 million metric tons, one per cent above last year, but five per cent below 1973.

Current estimates indicate that both consumption and carryover stocks declined in the crop year ended June, 1975. Wheat consumption declined 10.6 million and feed grains 33.4 million metric tons. Carryover stocks of wheat declined 2.2 million and feed grains 6.5 million metric tons.

Regional Production Variations

Regional variations in production were of particular significance in 1975.

Wheat production in the United States increased 19 per cent and established a record. In the major exporting countries, including the United States, wheat production was up 14 per cent. This increase was largely offset by reduced output in Western and Eastern Europe and in the USSR, which experienced a further decline of about 22 per cent in 1975, following a decline of 24 per cent in 1974.

The disparity in feed grains production was even more striking. United States production was up 23 per cent, while production in the USSR was down 36 per cent.

1976 Prospects

The tight supply of food and feed grains which has existed since 1973 will remain relatively unchanged through the current crop year ending June, 1976.

The supply of wheat will not support consumption in excess of the reduced level of 1974. Rice production, however, which is expected to exceed last year's record crop by four to five per cent, could result in somewhat reduced requirements for wheat in much of Asia, as rice tends to replace wheat in times of shortage. India, which has become a major consumer of wheat, reports rice production up about 10 per cent over 1974.

The world supply of feed grains is improved over a year ago but remains below the levels of 1970 and 1971. Reduced consumption of feed grains is expected in the USSR during 1976 as a result of low stocks. Both consumption and carryover stocks

World Food Production Per Capita



are expected to increase in the United States but this increase will be insufficient to appreciably alter the tight world supply situation.

In view of the tight world supply, prices of wheat and feed grains are expected to remain near present levels.

The USSR grain supply situation is desperate. Livestock herds are being reduced and early reports indicate the winter wheat planting season has been unusually dry. Without seasonable rains next year, Russia's import requirements could be massive. Some experts believe that Russia might begin purchase negotiations

early in the year to eliminate uncertainties. If so, world grain prices should strengthen early in 1976.

We expect farmers will continue efforts to boost grain production in 1976. Even if these efforts succeed, however, a significant increase in carryover stocks is unlikely unless global weather conditions are highly favourable in all major grain-producing areas. While production in less-developed countries has grown, soaring population has absorbed this growth and 1975 production per capita is at the 1964 level.

Given the continued rapid growth in population (and there can be no significant change in the rate of

growth in the near term) it seems certain that under-nutrition and famine will continue.

We expect therefore that future requirements for farm machinery will reflect the world's major, on-going task — to produce sufficient food for the nutritional needs of a growing population. Demand for farm machinery in individual markets will fluctuate because of varying weather and crop conditions and changing economic and political situations. Through the next decade, however, the total demand for farm machinery is expected to continue at a real growth rate of five to eight per cent a year.

World Wheat — Months Supply Carryover Stocks

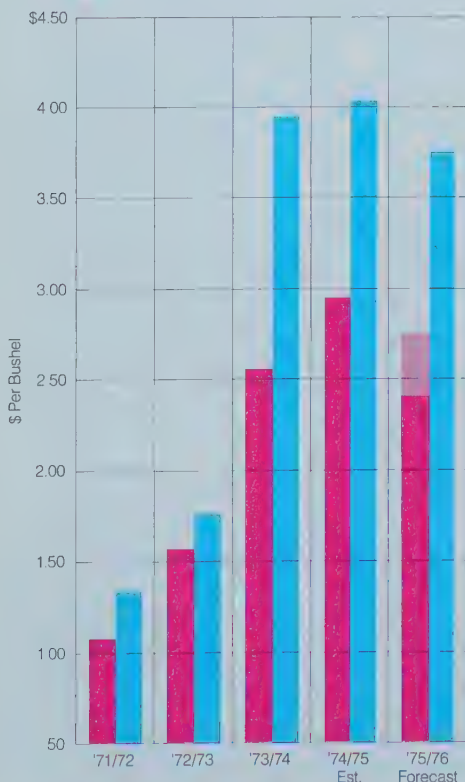
	'71/72	'72/73	'73/74	'74/75	'75/76 Est.
U.S.A., Canada Argentina, Australia	16.8	10.2	10.3	9.6	10.7
Rest of World	1.4	1.2	1.0	1.2	1.1
Total	2.6	1.7	1.9	1.8	1.8

World Feed Grains — Months Supply Carryover Stocks

	'71/72	'72/73	'73/74	'74/75	'75/76 Est.
U.S.A.	3.6	2.5	1.6	1.3	1.5
Rest of World	1.0	0.7	1.0	1.0	1.1
Total	1.6	1.2	1.1	1.0	1.1

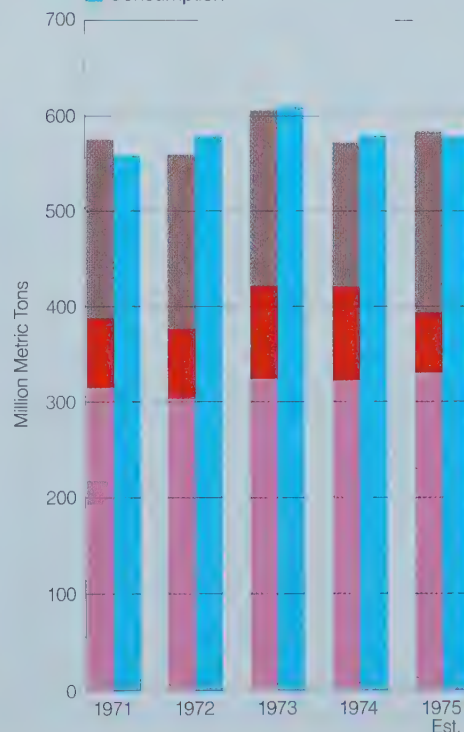
Prices Received

- Corn Prices Received by U.S. Farmers
- Wheat Prices Received by U.S. Farmers
- Forecast



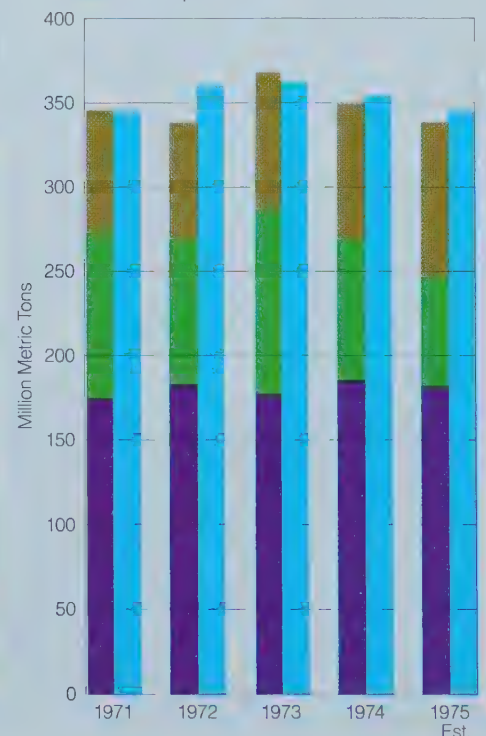
World Feed Grains Production and Consumption

- Production
- U.S.A.
- U.S.S.R.
- Rest of World
- Consumption



World Wheat Production and Consumption

- Production
- U.S.A., Canada, Australia, Argentina
- U.S.S.R.
- Rest of World
- Consumption



Industrial and Construction Machinery

The 1975 sales of \$355 million were more than 2½ times 1971 sales and were up 48 per cent over 1974. The 1975 figure includes sales of Hanomag products.

The situation for the industrial and construction machinery industry has been mixed over the past two years and demand has varied by markets and by applications. The industrialized countries have generally been in a major economic recession since 1973 and demand dropped sharply except for large machines used in energy-related activities. In contrast many of the developing countries, particularly in the Middle East, have not been affected by the downturn in the business cycle. In these countries demand has been supported by expanding requirements for housing, transport, industrial and commercial buildings, and for massive irrigation and land use projects.

Since 75 per cent of Massey-Ferguson's ICM sales in 1975 were outside North America, the significant downturn in this market did not affect us to the same extent as it did companies predominantly dependent upon the North American market. Moreover 44 per cent of our sales were in markets where the greatest growth has occurred since 1971. For example, over the past five years Massey-Ferguson has experienced a sales growth of 280 per cent in the developing world compared to 35 per cent in North America and 110 per cent in Europe.

Thus the broad geographical distribution strength of Massey-Ferguson has helped to cushion the impact in 1975 of recessionary influences.

Growth in Facilities, Products and Markets

Manufacturing capacity has been increased by the purchase of a plant in Akron, Ohio and construction of

plants in Aprilia, Italy and Knowsley, U.K., and the acquisition of Hanomag in 1974. In September, 1975 we completed the first phase (111,000 sq. ft.) of a large manufacturing complex in Sorocaba, Brazil. Thus we enter 1976 with more than 4.9 million sq. ft. of factory space for the production of industrial and construction machinery.

Hanomag, located in Hanover, Germany, has been a construction machinery manufacturer since the late 1920's and has been a leader in the German market for many years. Its engineering and product development centre and test facilities provide a level of technical capability vital to future growth in the construction machinery business. This additional research and product development capability complements Massey-Ferguson's major engineering facilities in the United States, Italy, the United Kingdom and elsewhere.

The company's line of larger construction machines was introduced in 1968 with 13 basic products and by 1972 this number had doubled. The acquisition of the Hanomag enterprise expanded our line to 37 basic products in 1975, three times the number offered in 1968.

Other product introductions in 1975 included two all-terrain forklifts and additional models of skid-steer loaders for the North American market. A medium-size crawler-dozing unit produced in Italy was launched late in the year. Production in the United States of a higher horsepower log skidder, the MF 320, began in December, 1975.

Germany

With the addition of Hanomag sales we have achieved a significant improvement in our share of the German construction machinery market, one of the most sophisticated in the world.

In the year prior to the acquisition, Hanomag sold 51 per cent of its production in Germany while Massey-Ferguson's sales in that market represented only three per cent of our total production. In 1975, Massey-Ferguson maintained a leading position in the German market for crawlers and wheel loaders. With the addition of Hanomag's distribution system, our industrial products achieved market penetration of 40 per cent, making Massey-Ferguson the market leader.

Other Markets

Outside Germany, many of the Hanomag-built models were introduced into much of our world-wide distribution network late in 1975. The first introduction was in Chicago in February, 1975 at "Conexpo", the world's largest construction machinery show, followed by product launches later in the year in other countries. The reaction of buyers and distributors has been favourable to the specifications and quality of the large models in the expanded product range but the full impact of the Hanomag line will not become evident until 1976.



Middle East

In the markets of the Middle East, construction machinery demand is expected to remain buoyant in 1976, although it is unlikely to show the growth rates of 1974 and 1975. The oil-producing countries of the area are reassessing their internal development programs in the light of inhibiting factors such as lower-than-expected income from oil, lack of skilled labour and inadequate transportation systems and port facilities. Nevertheless, the deficiencies in basic infrastructure indicate a strong continuing requirement for construction equipment.

Massey-Ferguson is well positioned to compete effectively in the high-potential markets of the Middle East.

Outlook

Basic economic indicators are now confirming that an upturn has been reached and that the economic cycle is beginning to move upward from the depressed level of 1975. Fixed investment and housing starts in most industrialized countries are expected to show improvement over 1975 although remaining below the buoyant years of 1973 and 1974.

In the United States and Japan recovery is already under way. Germany, France, Italy and the Benelux countries have announced reflationary programs and the European economies generally should begin to show growth in 1976. The exception appears to be the United Kingdom.

Latin America also should experience modest growth during 1976, with Brazil and Mexico in the lead.

Thus, the economic outlook appears to indicate improving prospects for sales of industrial and construction machinery as we progress through 1976.

Massey-Ferguson is now emerging as a significant competitor in the

industrial and construction machinery industry. The extension and strengthening of our product line, our enlarged productive capacity and our developing distribution network will permit us to participate in the major growth opportunities of the next few years.

During the 1976-78 period we will introduce 29 products, which will give Massey-Ferguson one of the most complete and modern construction machinery lines in the industry.

Our objective is to reach an annual sales volume of \$1 billion for industrial and construction machinery by the early 1980's and achieve a larger share of our total sales.



World Construction in Perspective

The term "Industrial and Construction Machinery" (ICM) covers a wide variety of machines for use in building construction, mining, earth-moving, materials handling and many other applications.

The mechanization of these activities followed farm mechanization by several decades and it was inevitable that construction machinery should be based on farm machinery technology. Thus, crawler tractors, industrial wheel tractors and four-wheel-drive loaders all have their origins in agricultural machinery and continue to share technology. Today, almost all the broad line ICM manufacturers are also manufacturers of farm machinery. This combination of activities provides such companies with a cross-flow of technology and utilizes more fully their distribution and service organizations.

With the major shift of population from rural to urban centres, the ICM business has emerged as a world-wide major industry based upon growing population, accelerating urbanization and rising living standards.

Recently, in the industrialized nations the growth of some segments of the construction industry, notably housing and public works, has been interrupted by the energy crisis and the current recession.

In contrast, this crisis has stimulated construction in oil-importing countries to develop alternate energy sources, and in oil-rich countries to provide rapid acceleration of all kinds of construction activity. Significant demand for construction machinery has resulted from coal mining operations; from extensive building of pipelines to tap oil and gas fields in remote areas; and from the development of hydro-electric as well as less conventional energy sources.

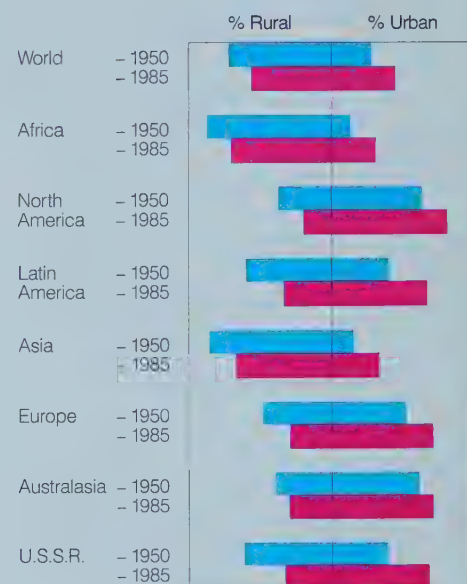
As industrialized nations emerge from the current recession, the construc-

tion industry will face a backlog of unsatisfied demand for housing. The massive effort begun in the sixties to improve the environment will resume as urban population growth puts pressure on water, air and land resources and forces revitalization of city core areas. Substantial expenditure is still required to complete highway systems and upgrade the supporting network of secondary roads and urban streets.

Other underlying factors which support the growth of construction activity are forecast to continue. World population at current growth rates is expected to reach 7.5 billion by the year 2000. Projected growth rates, however, vary a good deal by region:

Region	Years Required to Double Population
World	35
North America	113
Europe	99
Asia	27 - 42
Africa	27
Latin America	24

Urban and Rural Population 1950 vs 1985



MF loaders and other ICM equipment are at work on the Montreal site for the 1976 Olympics.



With world population doubling in 35 years, demand for industrial and construction machinery is self-evident.

The effect of population growth is compounded by the rising proportion of people living in urban areas where totally new living environments must be created. As urban populations expand, extensive and complex

supporting structures are needed to provide a wide variety of goods and essential services such as housing, food, utilities and roads. The extent of urbanization varies widely by region. The chart shows this trend will continue over the next decade. Another factor which will stimulate construction activity is the growing expectations and demands in all parts

of the world for improved standards of food, housing and health. The construction industry in many developing nations is expanding rapidly. Brazil's Second National Development Plan (1975/79) provides an example of the growth that may be expected to occur (see table I).

Over this five-year period, Gross Domestic Product and Gross Fixed Investment are planned to increase by 60 per cent in Brazil.

Another example of growth potential is Mexico, which is self-sufficient in oil and therefore does not have the financial burden on its balance of payments for oil imports (see table II).

It is predicted that more than half the 1980 population of 72 million will be urban dwellers and that the population of Mexico City by that year could reach 16 million.

Development projects of some of the countries in the Middle East and Africa are impressive. For example:

- Iran's five-year plan envisions the investment of \$65 billion.
- Iraq's agricultural development program is \$10 billion including a significant amount for dams and irrigation.

To sum up, the ICM business faces a major growth opportunity. From the depressed demand level of 1975, world-wide sales of ICM equipment are expected to exceed \$20 billion by 1985.

Brazil — Table I	1974	1979	% Increase
Population (millions)	104	120	15
Irrigated land (1,000 hectares)	737	1100	49
Paved roads (1,000 km.)	41	63	54
Unpaved roads (1,000 km.)	33	46	39
Subsidized housing (millions of units)	1.2	2.7	125

Mexico — Table II	1970	1980	2000
Population (millions)	48	72	135
Housing (millions of units)	8.3	13.2	33
Highways (1,000 km.)	72	140	—



Massey-Ferguson South Africa launched the new ICM line with this impressive display.

Engines

Demand for Perkins diesel engines during 1975 continued strong in most markets in spite of the world-wide economic recession.

Production of engines in 1975 was 511,000, an increase of 15 per cent over 1974. Of the 1975 production, 261,000 engines were built in United Kingdom plants, an increase of 13 per cent over 1974, and 54,000 units in Brazil, an increase of 49 per cent. Associates and licensees built 196,000 Perkins engines, a 12 per cent increase.

Unit engine sales to Massey-Ferguson increased by nine per cent over 1974, while sales to third party customers were up 20 per cent.

Total sales of the Engines Group increased by 50 per cent to \$464 million, including sales to Massey-Ferguson of \$169 million.

With the growth in diesel engine demand predicted over the next decade and the need to match production locations more closely to major markets, Perkins has given priority to expansion of capacity in the United States and Germany.

United States

Plans for a joint venture with the White Motor Corporation to operate an engine plant at Canton, Ohio, were revised and a new agreement was concluded whereby the 597,000 sq. ft. facility was acquired outright. This plant, after substantial retooling of the equipment, will provide capacity for production of Perkins four- and six-cylinder engines to meet growing demand in North America. Production of six-cylinder 354 cu. in. units at Canton is due to commence in the summer of 1976. The plant ultimately will have a capacity of 100,000 units a year.

Germany

Installation of assembly tracks and test facilities was completed during

1975 in a converted 250,000 sq. ft. plant within the Massey-Ferguson-Hanomag complex at Hanover. The plant is to move into full production in 1976. Initial capacity will be 20,000 units with a capability to increase to 40,000 annually. This facility also will be able to machine cylinder blocks at an annual rate of 76,000 units to support other manufacturing locations.

Volkswagen is the first customer to install Hanover-built 165 cu. in. engines in a light commercial van. This is Volkswagen's first move into diesel-powered vehicles. Tests of this engine are being conducted with other light commercial vehicle manufacturers in Europe, and this market offers substantial opportunities for Perkins over the next few years.

United Kingdom

A major program of capital expenditures has been undertaken to expand and consolidate production flow and to increase integration. The Peterborough facilities will have by 1977 a capacity approaching 330,000 units annually, in addition to being a major source of componentry to the world-wide Perkins manufacturing organization.

Brazil

Large capital expenditure programs are under way to increase production capacity of virtually the full range of Perkins engines from 55,000 units to 100,000 units by 1978/79. This expansion includes the development of an additional site near Sao Paulo at Alvarengas. The first phase of 48,000 sq. ft. was completed during 1975. More than 50 per cent of the planned capacity is intended for third party requirements.

Greater emphasis is being placed by the Government upon exports, and Perkins intends to fulfill its place in the Brazilian economy by participating fully in this effort.

Associates and Licensees

Peru

A joint venture company with Volvo AB of Sweden and the Peruvian Government is underway. Construction of the 108,000 sq. ft. facility at Trujillo will begin early in 1976 with a planned capacity of 15,000 units annually. Perkins and Volvo each holds 24 per cent of the company and the remainder is held by Government agencies.

Mexico

Early in 1975 our Perkins Associate in Mexico began work on a 153,000 sq. ft. plant, part of a major expansion project which will triple the 1975 production rate of 12,000 engines.

Iran

As a key part of our tractor project in Iran, Perkins will install an engine plant at Tabriz. Production is scheduled to begin in 1977 and will rise to 30,000 engines a year by 1980-82.

Poland

Good progress was made during the year under the agreement with Agromet Motoimport, which calls for annual production of 90,000 Perkins-designed diesel engines of the three- and four-cylinder classes by 1980. All preliminary planning stages are completed and during 1976 plant construction will commence and



machinery and equipment orders will be placed. In October, 1975, an extension to the agreement was concluded that will result in the annual production of 25,000 six-cylinder Perkins engines by 1985.

Other Associate and Licensee Developments

In Spain, annual production has climbed from 14,000 engines in 1967 to about 60,000 engines a year today. In Argentina, the capacity of our Associate company is being increased to 50,000 engines a year.

Licensees in Yugoslavia, Korea, Pakistan and Bulgaria have plans to increase annual production to 170,000.

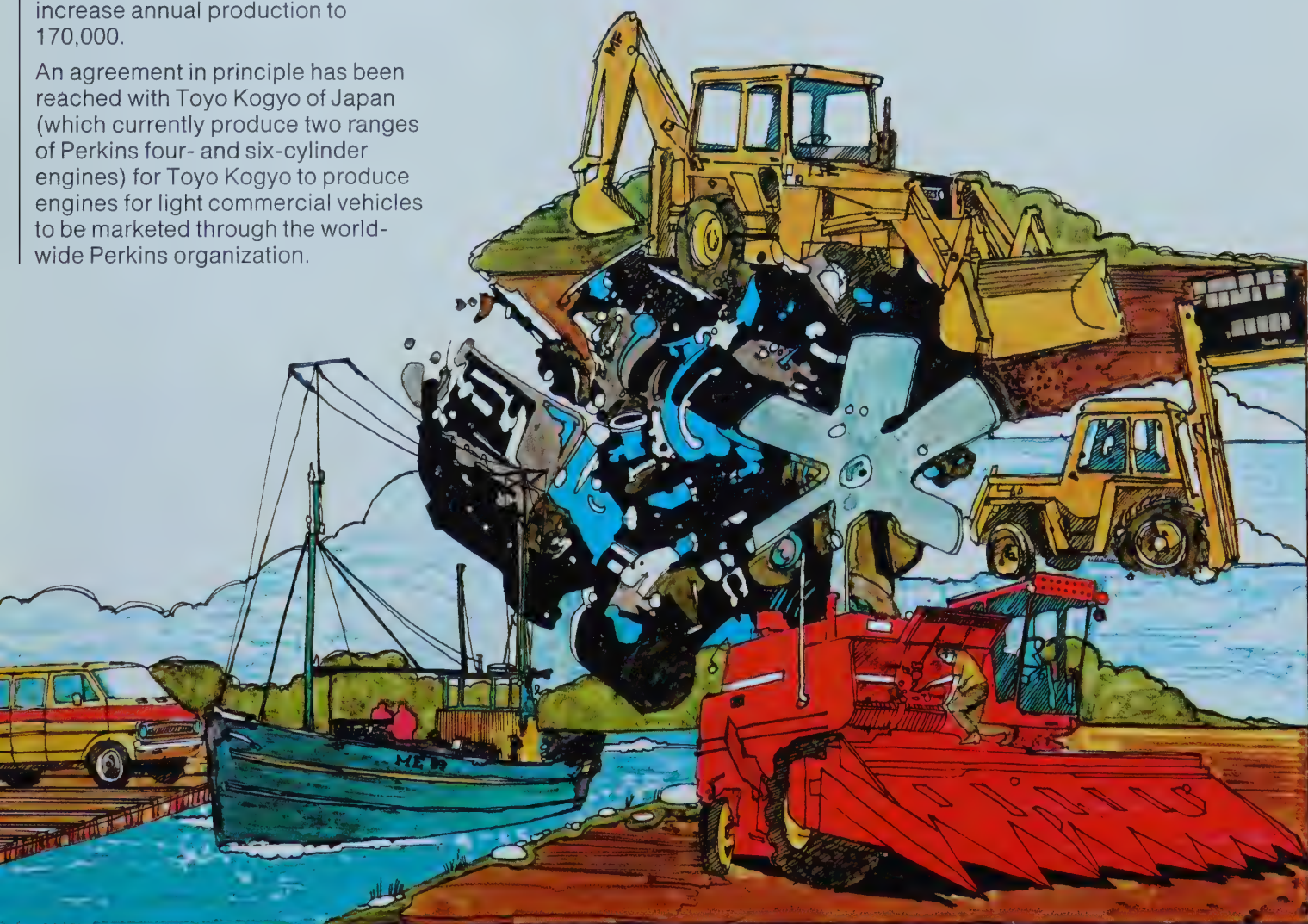
An agreement in principle has been reached with Toyo Kogyo of Japan (which currently produce two ranges of Perkins four- and six-cylinder engines) for Toyo Kogyo to produce engines for light commercial vehicles to be marketed through the world-wide Perkins organization.

Summary

In the developing countries the diesel engine offers attractive economic advantages because of its more effective utilization of oil. By standardizing on Perkins engines, which offer multi-application and a wide horsepower range, additional economies can be achieved through simplification of distribution, maintenance and parts support. Perkins has developed a world-wide network of distributors with sophisticated training programs and a comprehensive parts and service organization to meet this opportunity.

The future for the diesel engine industry continues to indicate expanding demand. Dwindling energy resources and the need for accelerating development of farm mechanization are formidable challenges as well as opportunities.

Perkins has a comprehensive, modern range of engines that can meet known legislative programs, a fine world-wide distribution network and plans to have production capacity of over one million engines during the 1980's. It expects, therefore, to participate fully in the opportunities available in all diesel engine markets.



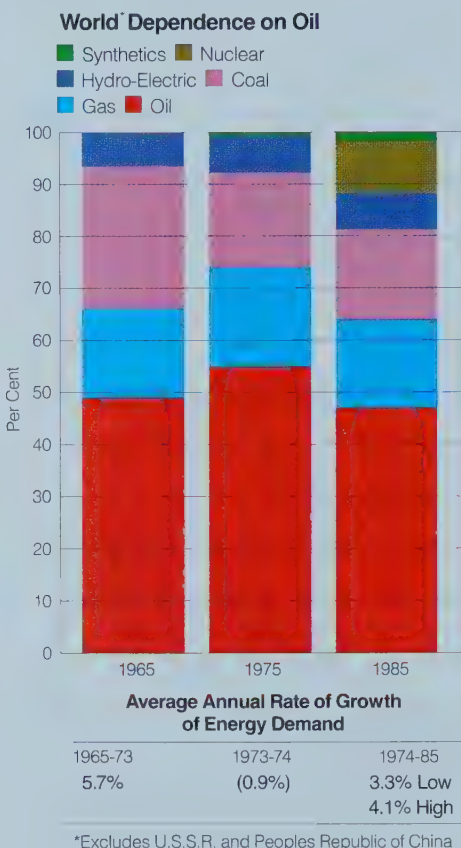
The Diesel Engine in Perspective

Lower maintenance costs, greater reliability and better fuel economy have been for many years the advantages of diesel engines over gasoline engines. The economic break-even point at which the capital cost of a diesel engine is offset by operating economies has gone down steadily. The oil crisis of 1973-74 with its attendant fuel shortages and higher crude oil prices have further reduced the break-even point.

Preceding the high priority now given to oil conservation was a growing emphasis in the industrialized countries on legislation to regulate atmospheric and other forms of pollution. One major source of atmospheric pollution is the contaminants in gasoline engine exhaust emissions. Diesel engine exhaust emissions, on the other hand, contain minimal levels of carbon monoxide, one of the most dangerous of contaminants, and can more readily and economically be adapted to comply with the growing scope of legislation throughout the world.

The rapid increase in oil prices and the need to control pollution have produced a combination of events that focus unprecedented attention

on the diesel engine industry and should foster its expansion at a much faster rate than has previously been experienced.



Recent World Trends and Projections

The energy crisis has provoked numerous examinations and projections of world energy sources. The most accepted projections fall within the ranges indicated in the chart.

The major implication of these energy-use trend projections is that by 1975 world reliance upon gas and oil had increased largely at the expense of coal. Over the next 10 years oil and gas will continue to be required for two-thirds of the world's energy needs although greater emphasis will be placed on expanding other sources such as nuclear power and synthetic fuels. As the cost of all traditional energy sources continues to increase, the need to conserve oil will become more pressing.

This markedly changing environment should accelerate and broaden demand for the diesel engine as a power source for commercial vehicles, passenger cars, agricultural and construction machinery and for industrial, marine, stationary and other power uses.

Almost all regulatory standards for engine exhaust emissions, noise and

Table I
World Diesel Engine Demand 1970 - 1985
Horsepower Classes 30-400
('000 units)

Application	Total		North America		Western Europe		Japan		Rest of World	
	1970	1985	1970	1985	1970	1985	1970	1985	1970	1985
Vehicle	1300	4700	150	(a) 800	650	(b) 2400	300	700	200	800
Agriculture	700	1300	150	200	450	500	Low	50	100	550
Industrial & Marine	800	2450	200	700	250	800	300	800	50	150
TOTAL	2800	8450	500	1700	1350	3700	600	1550	350	1500

Includes diesel passenger cars (a) 100,000; (b) 200,000; (c) 1,500,000

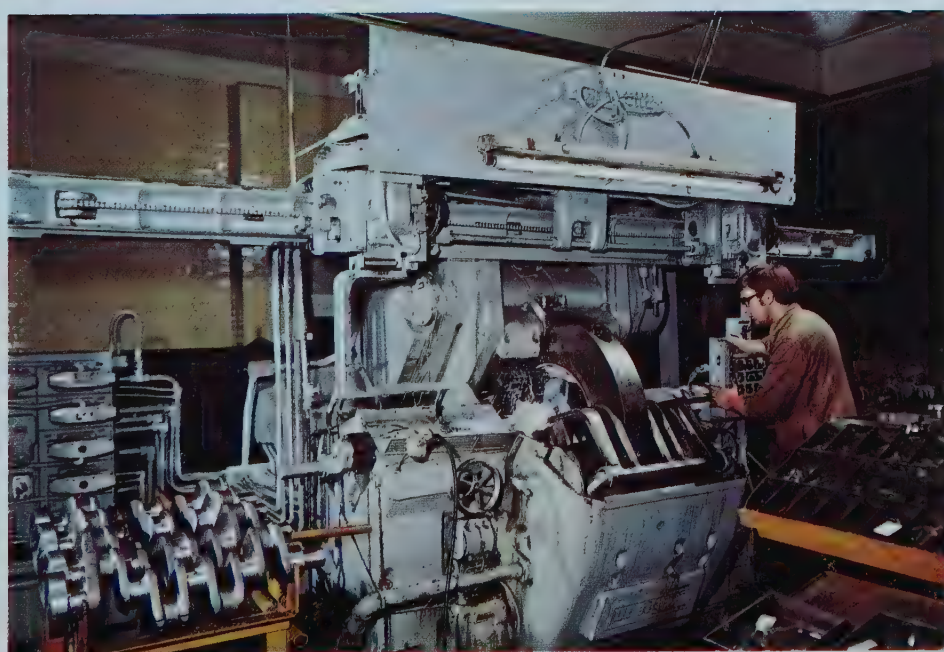
smoke apply to the automotive sector, but early application of similar standards can be expected in industrial uses, in construction machinery, and less immediately, in agricultural equipment. The drive for pollution controls has varied; in the United States, legislative limitations are most severe with regard to emission levels whereas the main targets in the European Economic Community countries are smoke and noise levels.

Perkins continues to be fully committed to development of diesel design and function to cope with

these requirements. Fortunately, the diesel engine is more readily adaptable to meeting exhaust emission controls; for example, the Perkins "Squish Lip" combustion system does not require such costly additions as catalytic converters or electronic ignition used on gasoline engines. Diesel engine exhaust smoke visibility now has been successfully overcome provided engines are properly maintained. Noise levels have been combated by sophisticated structural changes, engine cladding and improved methods of mounting engines.

Table II
Diesel Penetration of Vehicle Markets
Based on 1973 New Registrations

	Europe	North America
Autos and taxis	2.5%	NEGLIGIBLE
Vans and light commercial vehicles	20.0%	NEGLIGIBLE
Medium and heavy trucks	98.0%	13.0%



World Market Opportunities

In 1970, world-wide demand, excluding Eastern Bloc countries, was 2.8 million diesel engines in the 30- to 400-horsepower range and the estimated demand in 1975 slightly exceeded 4.3 million units.

World-wide demand is expected to reach 8.5 million units by 1985. (Table I)

The most obvious potential market for diesel engines is the transport industry, particularly in North America. In the lesser-capacity commercial vehicle sector, conversion to diesel engines is proceeding rapidly. By 1985, trucks of less than 26,000 lbs. gross vehicle weight will be heavily dieselized and a significant proportion of light commercial vehicles and possibly some passenger cars will be diesel-powered.

Due to the higher relative fuel costs, the European market for industrial applications and for commercial vehicles other than light vans converted to diesel engines substantially ahead of North America. Consequently, it is the light commercial van category which now offers the largest potential growth for diesel engines in Europe.

The rapid expansion of the economies of Latin America, where diesel engines already have an accepted position — for example, Argentina, Brazil, Mexico and Peru — will become a major factor in the world-wide diesel demand.

The developing countries in Asia, Africa, Australasia and the Far East are spending heavily on agriculture, transportation, energy and housing infrastructures which will become the basis for improving living standards. These infrastructure developments will generate a large demand for multi-purpose diesel engines.

A crankshaft grinder working in Eastfield, largest of Perkins' U.K. plants which produced 261,000 engines in 1975.

Future Growth

Since 1953, and particularly in the last five years, Massey-Ferguson by strategic decisions has laid firm foundations for future growth. For our three major product groups, substantial capital investments have added product lines, additional capacity and greatly improved supply and distribution capabilities. A strong management team, a carefully integrated administrative structure and a large and continuing commitment to research and product development provide basic support for the next five years of growth.

These are our opportunities:

Farm Machinery

The need to provide food for the expanding world population ensures a high demand for agricultural equipment. World reserves of wheat and feed grains are still low in spite of record crops in many areas and the resulting higher prices provide a level of farm income that permits planned purchase of farm machinery. Of special significance is the change in regional demand taking place in world tractor markets, as shown in Table I.

The increase in world demand from 728,000 units in 1975 to 880,000 in 1985 is due entirely to the growth regions outside North America and Europe. MF derives more than 50 per cent of its tractor sales from Latin America and the "rest of the world", which are the strong growth markets of the next decade. In Latin America, where we already hold a high market share (see Table II) we are well positioned to benefit from this growth. The diminishing unit demand in North America and Europe reflects the trend to high-capacity, large-horsepower machines. Massey-Ferguson will announce during 1976 new tractors to meet the changing requirements in these markets.

Finally, many developing nations are striving to achieve agricultural self-sufficiency and, in some cases, to begin local production of farm machinery. Massey-Ferguson's engineering expertise and technical know-how has placed us in an unequalled position to meet the aspirations of developing countries. A recent technical agreement for manufacture in Iran is a typical

example. Such arrangements inevitably enhance the demand for MF products generally and, in addition, provide product and component sources to support our long-term growth plans.

ICM

As the world emerges from the economic recession, demand for housing, roads, irrigation, pipelines and major construction projects will resume its long-term growth trend. As a result, sales will recover from their depressed levels of the last two years and industrial and construction machinery will regain its position as one of the world's most important growth industries.

Upon completion of the integration of the Hanomag line into our world-wide organization, Massey-Ferguson will be exceptionally well placed to take advantage of the recovery in demand. With more than 40 per cent of our ICM sales in the world's long-term growth markets, the advantages of the company's global distribution strength are apparent.

Since 1970, MF has substantially extended and strengthened its product line, increased its production capacity and developed a strong distribution network. ICM sales can be expected therefore to provide a significant share of the company's total sales in the early 1980's.

Engines

The next 10 years may well be the decade of the diesel. The growth opportunities are exceptional with world-wide demand expected to reach 8.5 million in the 30- to 400-horsepower range within which Perkins competes. To meet this growing demand, MF has made heavy capital expenditures to improve productive capability with the objective of maintaining its leading position as a supplier of diesel engines. Specific opportunities in the North American market will be met with production from the Canton plant. European light commercial vehicle needs will be met by the additional facility in Germany. The expansion programs of Associate companies and licensees will permit them to maintain or improve market share in their own countries.

Additional capital expenditures are committed to provide a continuing high production capability in Peterborough, U.K., our largest engine manufacturing facility, and in Brazil.

Conclusion

For all three product categories, substantial growth opportunities are apparent. Massey-Ferguson has laid substantial foundations in the past few years upon which it can begin to achieve higher levels of sales and income.

Table I
World Tractor Markets

	1975		1980E		1985E	
	000 Units	%	000 Units	%	000 Units	%
North America	189	26	170	22	165	19
Latin America	100	14	160	20	235	27
Europe	287	39	250	32	230	26
Rest of World*	152	21	200	26	250	28
Total	728	100	780	100	880	100

*Excludes Japan under 30 HP and Eastern Bloc countries.

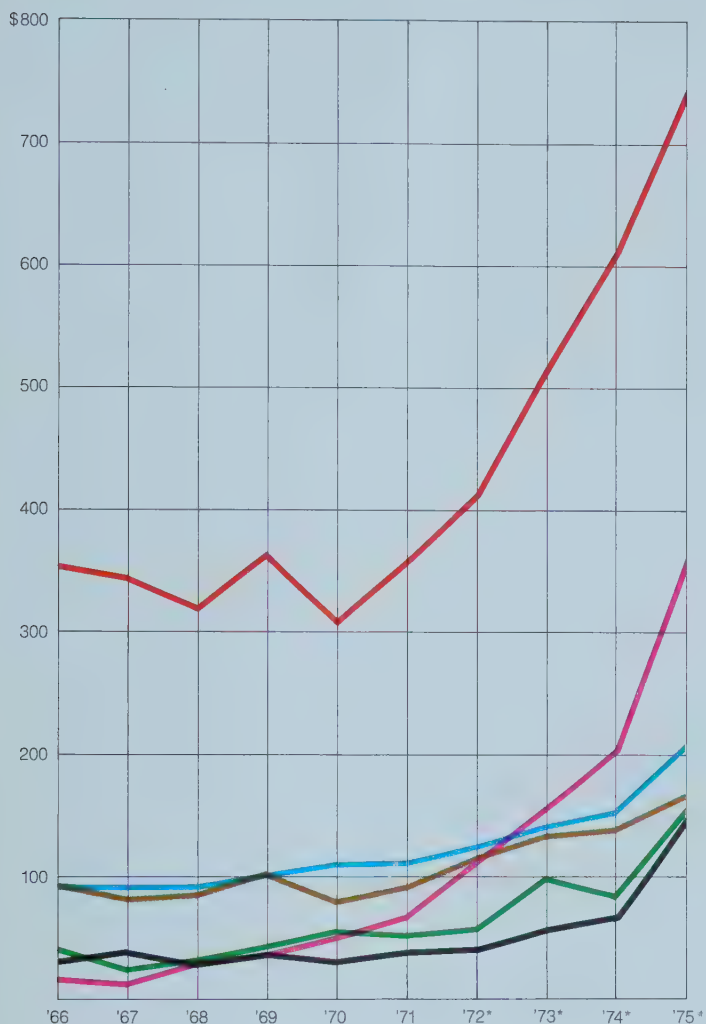
Table II
Latin American Major Tractor Markets

	Industry			% MF 1975E
	1969	1974	1975E	
Brazil	10,000	44,000	56,000	50
Argentina	10,500	21,000	15,500	26
Mexico	7,000	7,500	13,000	34

Net Sales by Markets

(Millions of U.S. Dollars)

North America Brazil United Kingdom France
W. Germany Asia

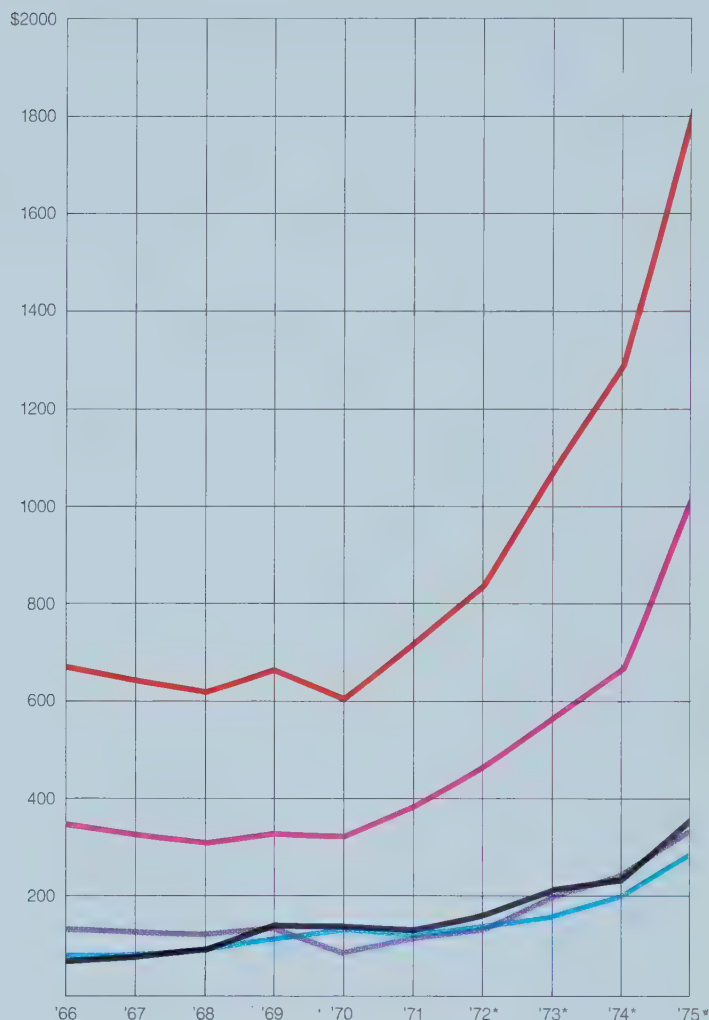


*Settlement accounting; see page 27

Net Sales by Products

(Millions of U.S. Dollars)

Farm Machinery Tractors Industrial & Construction Machinery
Grain Harvesting Engines



*Settlement accounting; see page 27

Geographical Distribution of Assets Employed

(Millions of U.S. Dollars)

	1975*	1974*	1973*	1972*	1971	1970	1969	1968	1967	1966	1965
Europe	\$ 833.1	688.6	537.2	408.1	382.1	405.1	403.3	342.7	326.8	320.9	300.6
North America	\$ 737.8	589.4	487.7	472.0	487.1	471.3	474.9	426.6	427.5	355.9	297.0
Latin America	\$ 261.5	221.1	133.5	86.3	64.4	60.5	61.3	43.5	45.4	43.1	29.1
Australasia	\$ 89.8	74.1	55.7	44.3	46.1	45.5	47.9	39.9	40.9	41.6	39.9
Africa	\$ 59.5	40.2	33.4	30.4	29.0	27.0	24.4	19.6	21.2	23.3	25.2
Asia	\$ 0.3	0.6	1.5	1.3	2.3	2.3	2.1	2.1	2.0	2.0	2.0
Total	\$1,982.0	1,614.0	1,249.0	1,042.4	1,011.0	1,011.7	1,013.9	874.4	863.8	786.8	693.8

*Settlement accounting; see page 27

Auditors' Report

To the Shareholders of
Massey-Ferguson Limited:

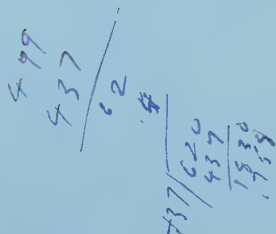
We have examined the consolidated balance sheets of Massey-Ferguson Limited and its consolidated subsidiaries as at October 31, 1975 and 1974 and the consolidated statements of income, retained earnings and changes in financial position for the years then ended. We have also examined the combined statements of assets and liabilities of Massey-Ferguson Finance Company of Canada Limited, Massey-Ferguson Credit Corporation and its finance subsidiary, and Massey-Ferguson Export Finance Company Limited, Massey-Ferguson Finance A.G. and Perkins Engines Finance Company Limited (the "Finance Subsidiaries") as at October 31, 1975 and 1974, and the combined statements of income and retained earnings for the years then ended. Our examinations included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly (a) the financial position of Massey-Ferguson Limited and its consolidated subsidiaries as at October 31, 1975 and 1974, and the results of their operations and the changes in their financial position for the years then ended and (b) the combined assets and liabilities of the Finance Subsidiaries as at October 31, 1975 and 1974, and the results of their operations for the years then ended, all in accordance with generally accepted accounting principles applied on a consistent basis during the period.



Toronto, Canada
December 16, 1975.

Chartered Accountants.



499
437

936
62

998

Massey-Ferguson Limited

(Incorporated under the Laws of Canada)

Consolidated Statements of Income and Retained Earnings

Years ended October 31, 1975 and 1974

(Thousands of U.S. Dollars)

Income

	1975	1974
Sales and Other Income:		
Net sales (Notes 1(c) and 9(b))	\$2,513,302	\$1,784,625
Interest and sundry income	31,070	21,563
Profit on disposal of capital assets	2,199	662
	2,546,571	1,806,850
Costs and Expenses:		
Cost of goods sold	1,945,484	1,383,048
Marketing, general and administrative expenses	267,928	202,881
Engineering and product development expenses	56,363	42,186
Interest on long-term debt	40,164	17,546
Interest on bank and other short-term debt	93,615	60,334
Net exchange losses (gains)	6,728	(639)
Minority interest	2,747	3,072
	2,413,029	1,708,428
Profit before Income Taxes, and Items Shown Below	133,542	98,422
Income taxes (Notes 1 (i) and 4)	47,874	36,505
Profit before Items Shown Below	85,668	61,917
Equity in net income of finance subsidiaries (Note 1(a))	4,530	4,304
Equity in net income of Associate companies (Note 1(d))	4,479	2,192
Net Income for the Year	\$ 94,677	\$ 68,413
Income per Common Share (in U.S. Dollars)	\$ 5.08	\$ 3.75

Retained Earnings

Balance at Beginning of Year	\$346,757	\$293,226
Add net income for the year	94,677	68,413
Deduct:		
Dividends declared (Note 6(a))	(14,582)	(14,882)
Expenses relating to issue of preferred shares	(1,444)	
Balance at End of Year	\$425,408	\$346,757

(See accompanying Notes to Consolidated Financial Statements)

Consolidated Balance Sheets

October 31, 1975 and 1974

(Thousands of U.S. Dollars)

Assets	1975	1974
Current Assets:		
Cash	\$ 20,107	\$ 13,324
Receivables (Note 2)	327,735	309,385
Products sold to North American dealers under deferred floor plan arrangements (Note 1(c))	161,066	123,509
Inventories, valued at the lower of cost or net realizable value —		
Raw materials and work in process	454,767	421,192
Finished goods	411,559	290,061
Total company inventories	866,326	711,253
Prepaid expenses and other current assets (Note 4)	71,303	65,060
Total Current Assets	1,446,537	1,222,531
Investments:		
Wholly owned finance subsidiaries, at equity in net assets (Note 1(a))	55,165	50,104
Associate companies (Note 1(d))	56,340	41,859
First mortgage receivable due 1976-79	4,231	5,497
	115,736	97,460
Fixed Assets:		
Land	19,809	17,822
Buildings	224,753	176,149
Machinery and equipment	455,041	369,555
Production tooling	60,004	42,586
Total fixed assets, at cost	759,607	606,112
Less accumulated depreciation and amortization (Notes 1(e) and 3)	358,692	327,842
	400,915	278,270
Other Assets and Deferred Charges (Note 1 (f))	18,838	15,690
	\$1,982,026	\$1,613,951

On behalf of the Board:

John A. McDougald, Director

Albert A. Thornbrough, Director

Liabilities and Shareholders' Equity	1975	1974
Current Liabilities:		
Bank borrowings (Note 8(c))	\$ 170,246	\$ 162,824
Current portion of long-term debt	47,296	16,456
Accounts payable and accrued charges	532,963	466,892
Income, sales and other taxes payable	69,207	56,060
Dividends payable (Note 6(a))		3,708
Advance payments from customers	10,453	15,227
Total Current Liabilities	830,165	721,167
Deferred:		
Income taxes (Note 4)	40,453	26,519
Exchange translation gains (Note 1(b))		1,005
	40,453	27,524
Long-Term Debt:		
Bonds, debentures, notes and loans (Note 8)	499,634	342,188
Less instalments maturing within one year	47,296	16,456
	452,338	325,732
Minority Interest in Subsidiaries	17,578	15,906
Shareholders' Equity:		
Share capital (Note 7)		
Preferred Shares	39,196	
Common Shares	176,888	176,865
Retained earnings (including retained earnings of unconsolidated finance subsidiaries: October 31, 1975—\$39,860; October 31, 1974—\$35,359) (Note 6)	425,408	346,757
	641,492	523,622
	\$1,982,026	\$1,613,951

(See accompanying Notes to Consolidated Financial Statements)

Consolidated Statements of Changes in Financial Position

Years ended October 31, 1975 and 1974

(Thousands of U.S. Dollars)

	1975	1974
Source of Funds:		
Income for the year	\$ 94,677	\$ 68,413
Add (deduct):		
Depreciation, and amortization of production tooling	45,432	35,034
Increase in deferred income taxes	13,934	13,123
Minority interest	2,747	3,072
Equity in earnings of finance subsidiaries in excess of dividends received	(4,501)	(4,274)
Equity in earnings of Associate companies in excess of dividends received	(3,552)	(1,880)
Profit on disposal of capital assets	(2,199)	(662)
Funds from Operations	146,538	112,826
Increase in long-term debt	196,707	134,601
Net proceeds of preferred share issue (Note 7)	37,752	
Proceeds on disposal of fixed assets	4,530	3,098
Reduction in first mortgage receivable	1,266	1,163
Common shares issued under options (Note 7)	23	146
Total Funds Provided	\$386,816	\$251,834
Use of Funds:		
Additions to fixed assets	\$170,408	\$110,200
Reduction in long-term debt	70,101	52,727
Dividends declared	14,582	14,882
Investments in Associate companies and finance subsidiaries	11,489	4,106
Increase (decrease) in other assets and deferred charges	3,148	(870)
Reductions in minority interest (including \$1,068 of dividends in 1975, \$936 in 1974, paid by subsidiary companies)	1,075	1,529
Reduction in deferred exchange translation gains (Note 1(b))	1,005	6,600
Increase in working capital as set out below	115,008	62,660
Total Funds Used	\$386,816	\$251,834
Changes in Elements of Working Capital:		
Working Capital at Beginning of Year	\$501,364	\$438,704
Current assets—increase:		
Cash	6,783	5,228
Receivables	18,350	9,128
Products sold to North American dealers under deferred floor plan arrangements	37,557	7,097
Company inventories	155,073	249,669
Prepaid expenses and other current assets	6,243	12,828
	224,006	283,950
Current liabilities—(increase) decrease:		
Bank borrowing and current portion of long-term debt	(38,262)	(85,528)
Accounts payable and accrued charges	(66,071)	(134,742)
Income, sales and other taxes payable	(13,147)	5,599
Dividends payable	3,708	(61)
Advance payments from customers	4,774	(6,558)
	(108,998)	(221,290)
Net Increase in Working Capital	115,008	62,660
Working Capital at End of Year	\$616,372	\$501,364

(See accompanying Notes to Consolidated Financial Statements)

Notes to Consolidated Financial Statements

Years ended October 31, 1975 and 1974

(In U.S. Dollars)

1 Summary of Significant Accounting Policies

(a) Basis of Consolidation

The accompanying consolidated financial statements consolidate the accounts of all subsidiary companies except for the wholly owned finance subsidiaries, the combined statements of which are set out separately rather than being consolidated (see page 32). The investment in these subsidiaries is carried in the Consolidated Balance Sheets at the equity in their net assets and their earnings have been included in the Consolidated Statements of Income. The company considers that this basis of presentation with respect to finance companies is more informative than full consolidation since (a) it affords a basis of comparison with other major companies in the industry, the larger of which are U.S. based and do not consolidate their finance subsidiaries, (b) it recognizes that these subsidiaries' operations are financed on a different basis from that applicable in the case of manufacturing and trading operations, with substantially greater restrictions on the transfer of assets from the finance companies, and (c) it avoids the implication that the concept of working capital may be appropriately applied to the finance companies' operations, or that the assets of the finance companies are readily available to the manufacturing subsidiaries. By way of supplementary information, summarized balance sheets at October 31, 1975 and 1974, and summarized statements of income for the years then ended, are set out on page 34 to show the over-all position if the accounts of the finance subsidiaries had been consolidated.

(b) Exchange Translation

The statements of companies outside the United States have been translated into U.S. dollars substantially as follows: current assets, current liabilities and long-term debt at exchange rates prevailing at the end of the year; investments, fixed assets and depreciation provisions on the basis of rates prevailing at date of acquisition; income and expenses (other than depreciation provisions) at average rates for the year.

Because of the abnormal circumstances prevailing in world currency markets, it was deemed appropriate to defer unrealized exchange translation gains (net) in 1973 of \$7,605,000 which arose because of the weakness of the U.S. dollar relative to most other major currencies, and to apply this deferral to absorb translation losses which were expected to result from future strengthening of the U.S. dollar. The deferral was accordingly applied to absorb \$6,600,000 of net translation losses in 1974 and \$1,005,000 in 1975.

(c) Sales and Settlement Accounting

Sales are recorded at the time of shipment to distributors,

dealers and other customers, except in the case of transactions with North American dealers under deferred floor plan arrangements.

These latter transactions are accounted for by using the settlement accounting method. Under this method North American sales of farm, industrial, construction and recreation equipment, and the related income, are not reflected in the accounts until settlement is received from the dealer. Amounts receivable from North American dealers under deferred floor plan arrangements are classified as a separate item on the Consolidated Balance Sheets and are carried at the lower of cost or net realizable value of the finished goods concerned rather than at selling price.

This method is considered more appropriate for transactions with North American dealers as the company, following industry practice, finances the major portion of its dealer inventories by means of floor plan notes. These notes have terms extending up to one year or more, are for the most part interest free, and settlement is not ordinarily received by the company until the products are sold by the dealer. During this period the company occasionally grants price reductions to dealers on slow moving goods, and may also absorb certain other costs prior to settlement from the dealer. Outside North America, on the other hand, the majority of dealers provide their own financing and pay for goods delivered in accordance with normal trade terms.

(d) Investments in Associate Companies

Investments in Associate companies (i.e. those in which the company owns 50 per cent or less of the voting shares), where the company exercises a significant influence over operating and financial policies, are accounted for on the equity method. Under this method, the company's share of the net income of these Associate companies (less amortization of any related goodwill) is included currently in the Consolidated Statements of income rather than when realized through dividends, and the investments are carried in the Consolidated Balance Sheets at original cost plus the company's share of undistributed earnings since acquisition less amortization of any related goodwill. Investments in other Associate companies continue to be carried at cost (1975 — \$3,096,000; 1974 — \$2,885,000).

(e) Fixed Assets

Additions to fixed assets are recorded at cost. Depreciation of facilities is provided on a straight line basis in substantially all of the companies, at rates which are designed to write off the assets over their estimated useful lives as follows:

Buildings	5 to 50 years
Machinery and equipment	3 to 10 years
Trucks and automobiles	3 to 5 years
Office furniture and equipment	5 to 10 years

Production tooling for new products and for major product changes is generally amortized over a three-year period commencing with the first year of full utilization of the tooling concerned; tooling for replacements and minor product changes is charged against income at the time of purchase.

(f) Amortization of Intangibles

Goodwill on the acquisition of subsidiaries and start-up expenses included in Other Assets and Deferred Charges are written off over periods of ten and four years respectively.

(g) Research and Development Costs

Research and development costs are charged against income as incurred.

(h) Pensions

A substantial portion of the companies' employees are covered by government and company pension plans. The costs of these plans are charged against income in the year premiums or funding requirements are payable. Past service costs in trustee plans are generally being amortized and funded over periods of up to 25 years (see Note 5(d)).

(i) Income Taxes

The company follows the tax allocation method of providing for income taxes. Under this method, timing differences between reported and taxable income (which occur when revenues and expenses recognized in the accounts in one year are taxed or claimed for tax purposes in another year) result in deferred or prepaid taxes.

The benefits of loss carry-forwards are generally not recognized until realized. The multinational nature of Massey-Ferguson's operations is such that, on a continuing basis, some subsidiaries are incurring losses (without recognition of the potential carry-forward tax benefits) at the same time that other subsidiaries are realizing the tax benefit of previous losses. On a consolidated basis these annually recurring tax recoveries are not considered to be extraordinary in nature and are accordingly reflected as a reduction of current income tax charges when realized.

Dividend payments from subsidiary companies in a number of countries are subject to withholding taxes at various rates but are not at present subject to additional tax in Canada. Provision is made for the related withholding taxes on dividends anticipated in the future out of accumulated earnings. Of the balance of unremitted earnings included in consolidated retained earnings at October 31, 1975, a portion is not subject to withholding tax; the remainder (approximately \$214 million at October 31, 1975 and \$153 million at October 31, 1974) has been re-invested on a long-term basis and withholding taxes have accordingly not been provided.

2 Receivables

(a) Receivables include amounts due from finance subsidiaries of \$7,682,000 in 1975 and \$11,652,000 in 1974.

(b) Receivables are shown net of the following provisions:

	1975	1974
Allowance for doubtful notes and accounts	\$16,258,000	\$14,269,000
Volume and performance bonuses, returns and other allowances	2,151,000	1,115,000
Unearned interest	1,868,000	1,838,000
	<u>\$20,277,000</u>	<u>\$17,222,000</u>

3 Depreciation and Amortization

Depreciation, and amortization of production tooling charged to operations are as follows:

	1975	1974
Depreciation	\$34,028,000	\$26,482,000
Amortization	11,404,000	8,552,000
	<u>\$45,432,000</u>	<u>\$35,034,000</u>

4 Income Taxes

The company's accounting policies with respect to income taxes are set out in Note 1(i). Prepaid and deferred income taxes are carried on the balance sheet as follows:

Prepaid income taxes (\$32,006,000 in 1975 and \$32,360,000 in 1974) resulting from the use of the settlement accounting method and other current timing differences between taxable and reported income are grouped with Prepaid Expenses and Other Current Assets.

Deferred income taxes (\$40,453,000 in 1975 and \$26,519,000 in 1974) primarily resulting from capital cost allowances claimed for tax purposes in excess of depreciation and amortization recorded in the accounts are shown separately.

Income taxes shown in the Consolidated Statements of Income have been reduced by tax credits arising from prior years' losses which, net of other tax adjustments relating to prior years, amount to \$3,100,000 in 1975 and \$1,300,000 in 1974.

At October 31, 1975, certain companies had tax losses aggregating \$30,400,000 (October 31, 1974 — \$40,000,000) available to be carried forward for which potential recoveries have not been recognized in the accounts. These loss carry-forwards expire as follows: 1976 — \$2,900,000; 1977 — \$8,700,000; 1978 — \$4,900,000; 1979 — \$4,300,000; 1980 and beyond — \$9,600,000. At current tax rates, the tax recoveries which would result will, if realized, amount to approximately \$15,000,000 (1974 — \$17,000,000).

5 Contingent Liabilities, Commitments, etc.

(a) The total contingent liabilities relating to notes receivable discounted and bills guaranteed etc., were as follows: October 31, 1975 — \$114,600,000, October 31, 1974 — \$73,400,000.

(b) Under subscription agreements relating to short-term bank borrowings and senior and subordinated notes of the two North American finance subsidiaries, Massey-Ferguson Limited has agreed that it will ensure that assets are maintained in those companies in certain specified relationships with their indebtedness.

(c) Approved capital expenditure programs outstanding at the year-end were as follows: October 31, 1975 — \$134,000,000 (including commitments of approximately \$69,000,000); October 31, 1974 — \$139,000,000 (including commitments of approximately \$57,000,000).

(d) Total pension expense including past service costs was \$62,600,000 in 1975 and \$37,300,000 in 1974. The increase in 1975 resulted from improved benefits in certain plans, the inclusion of Hanomag, and normal growth factors. The actuarially computed value of vested benefits exceeded total pension fund assets and balance sheet accruals by approximately \$71,000,000 at October 31, 1975 (\$85,000,000 at October 31, 1974) and the total unfunded past service obligation was approximately \$100,000,000 at October 31, 1975 (\$103,000,000 at October 31, 1974). The companies are not legally liable for any significant part of the unfunded past service obligation including that portion which has vested. See Note 1(h) regarding the basis of accounting for pension costs.

6 Dividends and Dividend Restrictions

(a) Dividends were declared as follows:

	1975	1974
Preferred shares (issued April 30, 1975) (\$2.50 Cdn. per share annually)	\$1,945,000	
Common shares (Cdn. \$0.70 per share in 1975, \$0.80 per share in 1974)	12,637,000 \$14,582,000	\$14,882,000 \$14,882,000

7 Share Capital, Stock Options and Reservation of Shares

The authorized preferred share capital consists of 4,000,000 shares of the par value of \$25.00 (Canadian) each, issuable in series of which 1,600,000 shares were issued in 1975 at par for \$40,000,000 (Canadian) cash, designated as \$2.50 (Canadian) Cumulative Redeemable Preferred Shares Series A. These preferred shares are subject to a sinking fund requirement calling for the redemption at par of 80,000 shares annually commencing April 30, 1976 which requirement may be satisfied by purchases for cancellation. Except as indicated above the shares are not

The common share dividends shown below for 1974 comprise four quarterly dividends, whereas those for 1975 comprise only three, as the fourth quarterly dividend of \$0.25 (Canadian) per share payable on December 20 was not declared until November 14, 1975.

(b) Supplementary Letters Patent relating to the Series A Preferred Shares issued in 1975 contain restrictions on the payment of dividends on common shares. Under these restrictions, approximately \$326,000,000 of consolidated retained earnings is not available for the payment of dividends to holders of common shares of Massey-Ferguson Limited.

Of consolidated retained earnings, \$274,000,000 at October 31, 1975 (\$219,000,000 at October 31, 1974) represents the company's equity in profits of various subsidiaries and Associate companies outside North America which have not been remitted to Canada. Approximately \$80,000,000 (\$56,000,000 at October 31, 1974) of this amount is not available for dividends as a result of restrictions contained in long-term loan agreements of certain subsidiary companies. Transfers of earnings from companies outside North America are generally subject to the approval of exchange control authorities, but permission to pay dividends is normally obtainable.

(c) Under the Canadian Government's anti-inflation program which became effective October 14, 1975, dividends to the company's common shareholders during the year ending October 13, 1976 may not exceed \$1.00 (Canadian) per share.

redeemable before April 30, 1980, after which date they may be redeemed by the company at a premium of \$1.25 (Canadian) per share reducing by \$0.25 (Canadian) annually to 1985 and thereafter at par.

The authorized common share capital consists of 25,000,000 shares without nominal or par value, of which 18,250,350 common shares were outstanding at October 31, 1975 (18,247,850 at October 31, 1974). During 1975 2,500 common shares were issued for a total of \$23,000 cash under employee stock options as detailed below.

Granted	Option Price (Canadian Dollars)	Outstanding October 31, 1974	Changes during 1975		Outstanding October 31, 1975
			Exercised	Expired	
1969	18.13	1,200		1,200	
1969	18.25	4,700		4,700	
1970	16.50	2,500		2,500	
1970	9.31	3,000	2,500	500	
Total		11,400	2,500	8,900	Nil

There are reserved for possible future options 215,350 unissued common shares.

8 Long-Term Debt

(a) Repayable in currency of country indicated unless otherwise shown; maturity dates are for fiscal years ending October 31:

(Thousands of U.S. Dollars)
October 31
1975
 October 31
 1974

MASSEY-FERGUSON (A.C.T.) PROPRIETARY LIMITED (AUSTRALIA):

Bank Loan maturing 1978-80 repayable in U.S. dollars bearing interest at 1½ % above Eurodollar interbank rate \$ 15,000

MASSEY-FERGUSON DO BRASIL S.A. (BRAZIL):

Bank Loan maturing 1978-82 repayable in U.S. dollars bearing interest at ¾ % above Eurodollar interbank rate 15,000 \$ 15,000

Bank Loan maturing 1978-84 repayable in U.S. dollars bearing interest at 2 % above Eurodollar interbank rate plus commission of ½ % per annum 5,000 5,000

Bank Loans maturing 1976-80 repayable in U.S. dollars bearing interest at 1½ % - 1⅝ % above Eurodollar interbank rate 9,200

Secured Bank Loans maturing 1976-77 repayable in U.S. dollars bearing interest at 1 % - 1½ % above Eurodollar interbank rate 2,510 9,976

MOTORES PERKINS S.A. (BRAZIL):

Bank Loans maturing 1976-83 repayable in U.S. dollars bearing interest at ⅞ % - 1½ % above Eurodollar interbank rate 12,500

MASSEY-FERGUSON INDUSTRIES LIMITED (CANADA):

5⅞ % Secured Promissory Note maturing 1976-85 13,489 15,367

MASSEY-FERGUSON S.A. (FRANCE):

8¼ % Bank Loan maturing 1977-79 8,510 7,881

Bank Standby Loan maturing 1976-78 bearing interest at the official medium term rate. Commitment fee 1¼ % per annum on any unused portion 9,200 8,520

Mortgage Loan maturing 1979-81 repayable in U.S. dollars bearing interest at 1 % above Eurodollar interbank rate 4,500 4,500

MASSEY-FERGUSON GmbH (GERMANY):

7½ % Bank Loan maturing 1977-79 15,640 15,520

Bank Loan maturing 1976 bearing interest at 1¼ % above Euromark interbank rate 13,685 13,580

Secured Purchase Loan maturing 1977 discounted at 10 % per annum 9,694 8,730

MASSEY-FERGUSON-HANOMAG INC. & CO. (GERMANY):

Bank Loan maturing 1977 bearing interest at 4¼ % above Deutsche Bundesbank discount rate. This facility was not in use at October 31, 1974. (Note 8(c)) 13,685

MASSEY-FERGUSON ICM S.p.A. (ITALY):

3 % - 4 % Mortgage Loans maturing 1976-83 6,988 8,046

MASSEY-FERGUSON HOLDINGS LIMITED (UNITED KINGDOM):

7½ % Loan Stock maturing 1976-92 24,415 28,039

Bank Loans maturing 1976-81 bearing interest at 1½ % - 2½ % above bank base rate, London interbank offered rate, or London sterling deposit market rate 40,203 19,367

MASSEY-FERGUSON INC. (U.S.A.):

5¼ % Promissory Notes maturing 1976-83 16,000 17,900

5⅞ % Subordinated Notes maturing 1976-84 18,240 19,800

PERKINS DIESEL CORPORATION (U.S.A.):

Capitalized value of property and equipment lease terminating 1993 discounted at 10 % 28,419

GENERAL PURPOSE LOANS (Repayable in U.S. dollars):

9 % Sinking Fund Debentures maturing 1976-82 14,000 15,500

9¾ % Sinking Fund Debentures maturing 1976-82 40,000

Bank Standby Loan maturing 1977-78 bearing interest at ⅝ % above Eurodollar interbank rate. Commitment fee ½ % per annum on any unused portion 10,000 15,000

Bank Standby Loan maturing 1978-80 bearing interest at ¾ % above Eurodollar interbank rate. Commitment fee ¼ % per annum on any unused portion 25,000 25,000

Bank Loan maturing 1978-80 in the amount of U.S. \$30,000,000 bearing interest at 1½ % above Eurodollar interbank rate of which U.S. \$25,000,000 was not in use at October 31, 1975. Commitment fee ½ % per annum on unused portion (Note 8(c)) 5,000

Bank Standby Loan maturing 1978 bearing interest at 1¼ % above Eurodollar interbank rate. Commitment fee ½ % per annum on any unused portion	5,000	
Promissory Note maturing 1976-80 bearing interest at 1½ % above Eurodollar interbank rate. This facility was not in use at October 31, 1974. (Note 8(c))	25,000	
Bank Standby Loan maturing 1977 in the amount of U.S. \$5,000,000 bearing interest at 1¾ % above Eurodollar interbank rate. Commitment fee ½ % per annum on unused portion. This facility was not in use at October 31, 1975 Note 8(c))		
8¾ % Promissory Notes maturing 1977	15,000	
Bank Standby Loan maturing 1979 bearing interest at ¾ % above Eurodollar interbank rate. Commitment fee ¾ % per annum on any unused portion	25,000	30,000
OTHER LONG-TERM DEBT (Note 8(d))	23,756	20,882
	469,634	303,608
BANK BORROWINGS (Note 8(c))	30,000	38,580
	\$499,634	\$342,188

(b) Sinking fund requirements and debt maturities during the next five years are as follows: 1976 — \$47,296,000; 1977 — \$93,552,000; 1978 — \$85,092,000; 1979 — \$90,577,000; 1980 — \$53,464,000.

(c) Included under the classification Long-Term Debt are current bank borrowings of \$30,000,000 (\$38,580,000 in

1974). These borrowings are covered by the unused portion of the General Purpose long-term facilities (1974 Germany and General Purpose) which were not being utilized at the year end, but have since been taken up.

(d) Other long-term debt includes long-term loans each of which is less than \$4,000,000.

9 Other Statutory Information

(a) Aggregate remuneration to persons who served as Directors and Officers of Massey-Ferguson Limited at any time during the year was as follows:

	17 Directors (3 Officers were also Directors)	17 Officers
Remuneration paid by:		
Massey-Ferguson Limited (holding company)	\$85,000	\$1,221,000
Subsidiary companies — principally Massey-Ferguson Inc. (U.S.A.)	11,000	737,000
	\$96,000	\$1,958,000

(b) The company's manufacturing and marketing operations are highly integrated and thus it is the opinion of the Directors that the company has only one line of business. Within this business, sales by major categories in millions of U.S. dollars were:

	1975	1974
Farm machinery	\$1,812.3	\$1,296.2
Industrial & construction machinery	354.8	239.5
Engines	294.8	204.8
Other products	51.4	44.1
Net sales	\$2,513.3	\$1,784.6

(c) Other assets and deferred charges at October 31, 1975 include housing loans of \$419,000 to Officers.

Finance Subsidiaries

Massey-Ferguson Finance Company of Canada Limited
 Massey-Ferguson Credit Corporation and its finance subsidiary
 Massey-Ferguson Export Finance Company Limited
 Massey-Ferguson Finance A.G.
 Perkins Engines Finance Company Limited

Combined Statements of Income and Retained Earnings

Years ended October 31, 1975 and 1974

(Thousands of U.S. Dollars)

	1975	1974
Revenue:		
Interest and finance fees (including income from affiliates of \$10,290 in 1975 and \$10,477 in 1974)	\$ 39,469	\$ 35,816
Discounts	3,119	2,543
	42,588	38,359
Expenses:		
Administrative expenses	8,810	9,311
Interest on long-term debt	7,708	7,797
Interest on short-term debt (including \$260 paid to affiliates in 1975 and \$810 in 1974)	15,122	12,598
Provision for doubtful accounts	262	129
Exchange adjustments	768	(97)
	32,670	29,738
Income before Income Taxes	9,918	8,621
Income taxes:		
Current	3,249	3,023
Deferred	2,139	1,294
	5,388	4,317
Net Income for the Year	4,530	4,304
Retained Earnings at Beginning of Year	35,359	31,085
	39,889	35,389
Deduct dividends on preferred shares	29	30
Retained Earnings at End of Year	\$ 39,860	\$ 35,359

Combined Statements of Assets and Liabilities

October 31, 1975 and 1974

(Thousands of U.S. Dollars)

	1975	1974
Assets:		
Cash	\$ 12,957	\$ 9,496
Receivables (Note 2)	419,571	300,019
Prepaid expenses	1,531	1,539
Property leased to an affiliate (at cost less accumulated depreciation of \$793 in 1974) (Note 1(a))		3,521
	\$434,059	\$314,575
Liabilities:		
Short-term notes payable — Banks	\$111,598	\$ 91,818
— Others	98,695	41,885
Due to affiliates	7,682	11,652
Dealer deposits	7,332	5,876
Accrued charges	5,690	5,705
Income taxes payable	1,211	177
Deferred income taxes	7,712	5,967
Long-term debt (Note 3)	138,974	101,391
	378,894	264,471
Equity of Massey-Ferguson Limited:		
Share capital	15,305	14,745
Retained earnings (Note 3(c))	39,860	35,359
	55,165	50,104
	\$434,059	\$314,575

(See accompanying Notes to Combined Finance Subsidiaries' Statements)

Notes to Combined Finance Subsidiaries' Statements

Years ended October 31, 1975 and 1974
(In U.S. Dollars)

1 Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statements combine the accounts of Massey-Ferguson Finance Company of Canada Limited, Massey-Ferguson Credit Corporation (U.S.A.) and its finance subsidiary, and Massey-Ferguson Export Finance Company Limited (U.K.), Massey-Ferguson Finance A.G. (Switzerland), and Perkins Engines Finance Company Limited (U.K.). The accounts of Distribution Holdings Inc., a subsidiary of Massey-Ferguson Credit Corporation, previously included in the combined Finance Subsidiaries statements, are included in the consolidated financial statements of Massey-Ferguson Limited at October 31, 1975. This change has had no material effect on the financial statements. Distribution Holdings Inc., which had retained earnings of \$165,000 at October 31, 1974, owns two facilities which are leased to manufacturing subsidiaries.

While the books of the United States finance subsidiaries are maintained, and their tax returns filed, on a modified cash basis of accounting, the accompanying financial statements incorporate adjustments to reflect the financial position of these subsidiaries on an accrual basis of accounting.

(b) Exchange Translation

The statements of subsidiaries located outside the United States are translated into U.S. dollars as follows: assets and liabilities at exchange rates prevailing at the end of the year; share capital at rates prevailing at the date of issue; revenue and expenses at average exchange rates during the year.

(c) Finance Income

Interest and discounts are taken into income in declining amounts over the life of the contract using an effective yield

method in North America and in equal amounts over the life of the contract elsewhere.

(d) Classification of Assets and Liabilities

In accordance with industry practice, the assets and liabilities have not been classified as current or noncurrent.

2 Receivables

Receivables are shown net of the following provisions:

Unearned interest and discount 1975—\$58,884,000 (1974—\$40,706,000); allowance for doubtful accounts 1975—\$3,675,000 (1974—\$2,990,000).

At October 31, 1975 approximately \$214,863,000 (before provisions) or 45 per cent of the receivables mature beyond one year (\$159,097,000 or 46 per cent at October 31, 1974), as follows:

	1975	1974
1976		\$ 88,169,000
1977	\$109,105,000	48,284,000
1978	66,982,000	17,920,000
1979	30,540,000	4,724,000
1980 and beyond	8,236,000	
	<u>\$214,863,000</u>	<u>\$159,097,000</u>

Included in the North American receivables are interest bearing wholesale receivables of \$9,168,000 in 1975 and \$7,354,000 in 1974.

Changes in receivables were as follows:

Purchases 1975 — \$694,452,000 (1974 — \$427,843,000);
Liquidations 1975 — \$556,066,000 (1974 — \$394,155,000).

3 Long-Term Debt

(a) Repayable in currency of country indicated unless otherwise shown; maturity dates are for fiscal years ending October 31:

MASSEY-FERGUSON FINANCE COMPANY OF CANADA LIMITED:

9¾ % Senior Debentures maturing 1976-80 \$ 5,728 \$ 10,160
8½ % Subordinated Notes maturing 1976-84 5,297 6,096

MASSEY-FERGUSON CREDIT CORPORATION (U.S.A.):

5¼ % Senior Notes maturing 1977-86 25,000 25,000
7½ % Senior Notes maturing 1976-88 17,220 18,480
8 % Senior Debentures maturing 1979-93 20,000 20,000
Senior Notes maturing 1977-80 bearing interest at 1½ % above Eurodollar interbank rate in the amount of \$25,000,000. Commitment fee ½ % per annum on unused portion. This facility was not in use at October 31, 1975 (Note 3(d)) 5,000
Senior Notes maturing 1978 bearing interest at ¾ % above Eurodollar interbank rate in the amount of \$15,000,000. Commitment fee of ½ % per annum on unused portion. This facility was not in use at October 31, 1975 (Note 3(d)) 5,600
5½ % Subordinated Notes maturing 1976-80 4,305 4,620
7½ % Subordinated Notes maturing 1976-88 6,824 6,435
7¾ % Subordinated Loan maturing 1977 payable in Swiss Francs
Subordinated Notes maturing 1978 bearing interest at 1 % above Eurodollar interbank rate in the amount of \$10,000,000. Commitment fee ½ % per annum on unused portion. This facility was not in use at October 31, 1975 (Note 3(d))
88,974 101,391

Short-term notes payable (Note 3(d)) 50,000

Senior \$117,948 \$ 78,640
Subordinated 21,026 22,751
\$138,974 \$101,391

(b) Instalments due and maturities during the next five years are as follows: 1976 — \$3,736,000; 1977 — \$19,311,000; 1978 — \$37,486,000; 1979 — \$13,686,000; 1980 — \$16,150,000.

(c) In connection with the agreements relating to the long-term and short-term debt, \$10,269,000 of the companies' retained earnings are restricted as to dividends.

(d) Included under the classification long-term debt are short-term notes payable of \$50,000,000 at October 31, 1975. It is the company's intention to refinance these notes on a long-term basis using either the unused portions of the available long-term credit facilities or other long-term credit arrangements.

Supplementary Information

Showing Financial Position and Results of Operations had the Finance Subsidiaries been Consolidated. (See Note 1(a) to Consolidated Finance Statements)

Summarized Statements of Income

Years ended October 31, 1975 and 1974

(Thousands of U.S. Dollars)

	1975	1974
Sales and other income		
Net sales	\$2,513,302	\$1,784,625
Interest and other income	65,307	49,297
	2,578,609	1,833,922
Costs and expenses:		
Cost of goods sold, marketing, general, administrative, engineering and product development expenses	2,278,176	1,631,466
Interest on long-term debt	47,872	25,343
Interest on bank and other short-term debt	98,858	67,734
Net exchange losses (gains)	7,496	(736)
Minority interest	2,747	3,072
	2,435,149	1,726,879
Profit before income taxes and equity in net income of Associate companies	143,460	107,043
Income taxes	53,262	40,822
Profit before equity in net income of Associate companies	90,198	66,221
Equity in net income of Associate companies	4,479	2,192
Net income for the year	\$ 94,677	\$ 68,413

Summarized Balance Sheets

October 31, 1975 and 1974

(Thousands of U.S. Dollars)

	1975	1974
Assets		
Current assets:		
Cash	\$ 33,064	\$ 22,820
Receivables	557,273	457,279
Products sold to North American dealers under deferred floor plan arrangements	161,066	123,509
Company inventories	866,326	711,253
Prepays	70,062	66,360
Total current assets	1,687,791	1,381,221
Receivables due beyond one year	180,339	136,010
Investments	60,571	47,356
Fixed assets (net)	400,915	281,791
Other assets and deferred charges	18,838	15,690
Total assets	\$2,348,454	\$1,862,068
Liabilities and shareholders' equity		
Current liabilities:		
Bank borrowings and short-term notes payable	\$ 380,539	\$ 296,527
Current portion of long-term debt	51,032	23,863
Accounts payable and accrued charges	536,036	467,895
Income, sales and other taxes payable	70,418	56,237
Dividend payable		3,708
Advance payments from customers and dealer deposits	17,785	21,103
Total current liabilities	1,055,810	869,333
Deferred income taxes and in 1974 exchange translation gains	45,998	33,491
Long-term debt	587,576	419,716
Minority interest	17,578	15,906
Total liabilities	1,706,962	1,338,446
Shareholders' equity:		
Share capital		
Preferred shares	39,196	
Common shares	176,888	176,865
Retained earnings	425,408	346,757
	641,492	523,622
Total liabilities and shareholders' equity	\$2,348,454	\$1,862,068

Sales Statistics

(Millions of U.S. Dollars)

		1975*	1974*	1973*	1972*	1971	1970	1969	1968	1967	1966
		% of Total	Amount \$	\$	\$	\$	\$	\$	\$	\$	\$
Net Sales By Markets	North America										
	Canada	7.3	184.0	142.4	100.2	85.8	69.1	65.2	79.9	66.8	84.4
	United States	22.4	562.4	471.6	422.2	330.8	293.6	247.8	285.9	256.6	263.1
	Total	29.7	746.4	614.0	522.4	416.6	362.7	313.0	365.8	323.4	347.5
	Europe										
	United Kingdom	8.4	211.6	157.5	146.8	128.9	116.2	114.3	106.1	95.5	95.1
	France	6.8	171.3	142.4	137.4	119.2	95.6	88.5	110.7	93.1	89.0
	West Germany	6.3	157.5	88.0	102.6	62.4	56.4	57.8	47.5	35.6	28.8
	Italy	3.6	89.5	59.3	54.5	45.7	39.4	41.8	37.3	30.9	28.6
	Scandinavia	3.5	86.9	56.1	45.6	42.3	41.3	39.7	34.7	29.7	33.3
	Benelux	1.3	33.3	19.0	15.8	10.5	9.3	11.6	8.4	7.6	6.7
	Spain	0.7	18.6	16.7	10.2	8.3	4.3	8.1	9.0	4.1	5.3
	Austria	0.6	14.4	10.3	10.9	8.3	10.1	8.2	6.0	5.5	6.2
	Other	1.2	30.4	17.5	16.1	14.3	13.9	14.0	11.5	10.5	8.7
	Total	32.4	813.5	566.8	539.9	439.9	386.5	384.0	371.2	312.5	301.7
	Latin America										
	Brazil	14.4	363.1	213.3	164.5	121.5	76.4	58.8	43.0	38.0	20.5
	Argentina	2.0	51.7	51.1	29.2	15.5	10.1	9.6	3.8	2.2	2.9
	Mexico	1.4	35.0	19.0	11.3	11.5	11.5	11.7	11.8	10.3	11.8
	Other	2.1	51.8	32.7	23.5	15.9	21.8	14.7	11.5	10.5	7.5
	Total	19.9	501.6	316.1	228.5	164.4	119.8	94.8	70.1	61.0	42.7
	Asia										
	Turkey	1.8	44.3	24.4	29.0	16.2	8.1	3.9	10.0	12.2	13.6
	Japan	0.9	23.4	12.5	7.7	6.5	7.4	5.4	4.3	3.3	3.2
	Pakistan	0.6	15.9	5.4	1.4	2.8	1.8	4.0	4.0	1.6	6.1
	Iran	0.6	15.5	0.8	0.3	0.1	0.2	0.1	0.9	0.2	0.5
	Thailand	0.5	11.8	5.7	2.9	1.5	3.0	2.2	3.1	2.4	2.2
	Other	1.5	36.6	19.5	16.2	16.3	20.3	17.9	16.7	13.4	15.5
	Total	5.9	147.5	68.3	57.5	43.4	40.8	33.5	39.0	33.1	41.1
	Rep. of South Africa	4.0	99.2	70.2	45.5	43.6	44.7	38.0	38.9	35.2	33.9
	Libya	1.1	28.9	19.0	11.4	7.7	4.2	0.6	3.4	2.9	1.3
	Nigeria	0.7	16.6	2.8	1.5	3.2	1.5	1.3	0.8	0.3	0.6
	Other	2.0	50.8	35.0	25.2	23.1	26.5	28.8	24.9	19.8	18.2
	Total	7.8	195.5	127.0	83.6	77.6	76.9	68.7	68.0	58.2	54.0
	Australasia	4.3	108.8	92.4	74.3	50.5	42.6	43.9	55.3	59.8	57.8
	Total	100.0	2513.3	1784.6	1506.2	1192.4	1029.3	937.9	969.4	848.0	844.8
Net Sales By Quarters	First	17.4	437.4	339.6	253.9	177.7	197.6	172.8	158.8	153.3	150.2
	Second	24.0	604.1	434.1	359.2	287.8	256.4	249.7	248.2	224.3	248.4
	Third	25.7	645.2	457.5	380.5	327.4	249.4	235.9	265.7	207.4	218.8
	Fourth	32.9	826.6	553.4	512.6	399.5	325.9	279.5	296.7	263.0	227.4
	Total	100.0	2513.3	1784.6	1506.2	1192.4	1029.3	937.9	969.4	848.0	844.8
Net Sales By Products	Farm Machinery										
	Tractors	40.6	1020.5	674.4	575.5	474.2	396.0	331.0	339.6	317.8	335.6
	Grain Harvesting	13.6	340.1	248.3	202.6	143.3	128.0	99.4	148.4	135.6	140.6
	Hay Harvesting	2.0	51.2	39.6	37.1	28.5	29.3	26.1	30.1	26.2	27.2
	Other Products	6.5	163.8	146.8	115.0	79.3	69.4	62.2	66.5	64.1	68.5
	Parts	9.4	236.7	187.1	152.9	117.3	105.7	91.9	87.0	84.4	80.2
	Total	72.1	1812.3	1296.2	1083.1	842.6	728.4	610.6	671.6	628.1	652.1
	Industrial & Con- struction Machinery										
	Machines	11.5	287.9	198.6	181.1	142.2	121.6	128.1	128.0	88.6	73.3
	Parts	2.7	66.9	40.9	32.0	25.2	16.6	16.4	14.5	9.5	7.0
	Total	14.2	354.8	239.5	213.1	167.4	138.2	144.5	142.5	98.1	80.3
	Engines										
	Engines	16.0	402.1	263.0	220.8	197.7	166.1	179.4	160.7	132.8	127.8
	Deduct MF	(6.7)	(168.7)	(104.8)	(87.1)	(80.0)	(59.1)	(57.8)	(55.8)	(48.2)	(49.3)
	Parts	2.4	61.4	46.6	39.2	32.6	28.1	23.8	22.2	18.1	15.4
	Total (Net)	11.7	294.8	204.8	172.9	150.3	135.1	145.4	127.1	102.7	93.9
	Other Products	2.0	51.4	44.1	37.1	32.1	27.6	37.4	28.2	19.1	18.5
	Total	100.0	2513.3	1784.6	1506.2	1192.4	1029.3	937.9	969.4	848.0	844.8

*Settlement accounting (see page 27) for 1972-75 only. It is not practicable to restate individual years prior to 1972.

Financial Statistics

(Millions of U.S. Dollars except as indicated)

	1975*	1974*	1973*	1972*	1971	1970	1969	1968	1967	1966
Summary of Operations										
Net Sales	\$2,513	1,785	1,506	1,192	1,029	938	969	848	845	862
Gross profit	\$ 568	402	339	258	215	186	220	196	183	194
Other revenue	\$ 33	22	21	24	15	14	13	23	23	18
Expenses (excluding interest)	\$ 333	248	224	188	169	173	161	149	142	132
Interest expense	\$ 134	78	48	43	51	50	33	35	31	27
Profit (loss) before taxes, etc.	\$ 134	98	88	51	10	(23)	39	35	33	53
Income taxes	\$ 48	37	36	16	6	1	12	12	10	14
Finance subsidiaries and Associate cos.	\$ 9	7	6	6	5	4	3	3	3	2
Net income (loss)	\$ 95	68	58	41**	9	(20)	30	26	26	41
Dividends — Common	\$ 13	15	9	—	—	17	17	17	17	16
— Preferred	\$ 2	—	—	—	—	—	—	—	—	—
Income retained	\$ 80	53	49	41	9	(37)	13	9	9	25

Financial Condition										
Working capital	\$ 617	501	439	349	335	291	330	332	327	338
Additions to fixed assets	\$ 170	110	60	28	27	43	38	31	49	47
Depreciation and amortization	\$ 45	35	34	32	31	31	31	32	30	28
Total assets	\$1,982	1,614	1,249	1,042	1,011	1,012	1,014	874	864	787
Current ratio	1.7	1.7	1.9	1.9	1.8	1.7	1.8	2.1	2.1	2.4
Asset turnover ratio	1.3	1.1	1.2	1.1	1.0	0.9	1.0	1.0	1.0	1.1

Liabilities and Shareholders' Equity										
Current	\$ 830	721	500	410	402	442	428	302	294	242
Other	\$ 510	369	279	212	205	175	155	155	162	146
Shareholders' equity	\$ 641	524	470	420	404	395	432	417	408	399
Return on closing equity	% 15	13	12	10	2	(5)	7	6	6	10

Per Cent Increase (Decrease) From Previous Year										
Sales	% 40.8	18.5	26.3	15.8	9.7	(3.2)	14.3	0.4	(2.0)	15.3
Cost of goods sold	% 40.7	18.5	24.9	14.7	8.4	0.3	14.9	(1.4)	(0.9)	14.5

As a Per Cent of Sales										
Cost of goods sold	% 77.4	77.5	77.5	78.4	79.1	80.2	77.3	76.9	78.3	77.5
Gross margin	% 22.6	22.5	22.5	21.6	20.9	19.8	22.7	23.1	21.7	22.5
Marketing, general and administrative	% 10.7	11.4	12.4	13.4	13.9	15.4	13.8	14.0	13.4	12.3
Engineering and product development	% 2.2	2.4	2.2	2.3	2.4	2.8	2.5	2.6	2.7	2.3
Profit (loss) before taxes, etc.	% 5.3	5.5	5.9	3.6	0.9	(2.4)	4.1	4.2	3.8	6.1
Net income (loss)	% 3.8	3.8	3.9	3.4**	0.9	(2.1)	3.1	3.1	3.0	4.8

Per Common Share (\$ U.S.)										
Net sales	\$137.72	97.80	82.59	65.53	56.57	51.55	53.28	46.77	46.60	47.56
Income (loss)	\$ 5.08	3.75	3.20	2.23**	0.51	(1.08)	1.66	1.45	1.41	2.27
Income retained	\$ 4.39	2.93	2.70	2.23	0.51	(2.03)	0.73	0.53	0.49	1.38
Equity	\$ 33.00	28.69	25.77	23.09	22.19	21.68	23.72	23.02	22.49	22.00
Funds from operations	\$ 8.15	6.22	5.38	3.40	1.98	0.16	3.38	3.50	3.15	4.00
Toronto Stock Exchange quotes, High	\$ 18½	24¾	26½	18½	13	19¼	25½	24¾	27¼	37¼
(\$ Canadian) Low	\$ 12½	11½	15¾	8½	9	8½	15¾	14	15¼	20
Dividends declared (\$ Canadian)	\$ 0.70	0.80	0.50	—	—	1.00	1.00	1.00	1.00	1.00
Dividends paid (\$ Canadian)	\$ 0.90	0.80	0.30	—	0.25	1.00	1.00	1.00	1.00	1.00

Shareholders/Employees										
Employees	64,572	60,822	51,267	45,888	43,349	47,386	50,429	46,049	44,204	45,907
Shareholders — Common shares	35,844	34,541	34,041	38,260	41,575	45,744	39,694	43,527	42,304	40,186
— Preferred shares	5,046	—	—	—	—	—	—	—	—	—
Common shares outstanding (thousands)	18,250	18,248	18,236	18,195	18,195	18,195	18,195	18,131	18,131	18,129
Preferred shares outstanding (thousands)	1,600	—	—	—	—	—	—	—	—	—

*Settlement accounting (see page 27) for 1972-75 only. It is not practicable to restate individual years prior to 1972.

**Includes extraordinary gain on sale of surplus property of \$8 million (\$0.45 per common share).

(The above figures for 1966 to 1968 were originally reported in Canadian dollars and have been translated to U.S. dollars for comparative purposes. These figures and the trends indicated are considered to be accurate but the translation has not been subjected to external audit).

Management Discussion and Analysis of
Summary of Operations

Consolidated sales in 1975 reached \$2.5 billion, a 41 per cent increase for the year versus a 19 per cent increase in 1974. Sales in 1971 just exceeded the \$1.0 billion dollar mark. Since then the U.S. wholesale price index for industrial commodities has increased 56 per cent and in most other countries it has increased by a greater amount. This indicates that although inflation played a significant part in the sales increase since 1971, a large portion is attributable to real sales growth. These increases reflect the strong world-wide farm machinery demand prevailing since 1973, expansion in the industrial and construction machinery market and steady growth of the diesel engine market.

Gross profit as a per cent of sales has remained basically unchanged since 1973 and currently stands at 22.6 per cent of net sales. For most of this three year period severe shortages of components were experienced which led to production disruptions and special resourcing actions. The resulting penalties plus rapid inflation offset the benefits of increased volumes which would otherwise have resulted in improved margins. In addition, price controls were in effect in a number of countries at various times during the past five years. Massey-Ferguson generally was permitted to increase prices to reflect cost increases in most of its markets although varying delays occurred in obtaining necessary approvals, thus temporarily affecting the gross margin of certain operations.

Other revenue consists primarily of interest earned on dealer open accounts, but also includes royalty income, miscellaneous fees and profits on disposal of capital assets.

- Interest income on dealer receivables for 1975 was \$23.0 million which is after an increase of \$5.0 million in 1975 and \$4.1 million in 1974. The increases are mainly on account of operations in Argentina, Brazil and France.
- An increase in royalties and fees resulted from the higher levels of activity in Associate companies. This revenue increased during 1975 by \$4.5 million to \$8.2 million.
- Disposal of property in Australia resulted in a profit of \$2.1 million in 1975 and this was the first significant fixed asset disposal since 1973.

Expenses (excluding interest) include marketing, general and administrative expense, engineering and product development, minority interest and exchange.

- In 1975 marketing, general and administrative expense totalled \$267.9 million. The relative decrease in these expenses since 1973 (10.7 per cent vs. 12.4 per cent) reflects the substantial increase in sales volumes while maintaining control over the expense.
- Engineering and product development expenditures more than doubled during the past five-year period to \$56.4 million in 1975. This arises from the continuing

emphasis on research and resulted in a significant number of products being introduced during the period.

- Income attributable to the minority interest in subsidiary companies has increased from \$1.9 million in 1973 to \$2.7 million in 1975 reflecting the profit growth of those companies. There was no change in the percentage of minority ownership over this period.
- Exchange losses and gains are inevitable in a multinational company but have tended to be minimal over a long period of time. For the five-year period, exchange losses totalled \$7.5 million.

Despite consistent gross profit rates and the control of expenses set out above, much of the benefit has been offset by increases in short and long-term interest expense. Interest increased from 3.2 per cent of net sales in 1973 to 5.3 per cent in 1975, reflecting not only generally high interest rates and new levels of assets to support the greater activity, but also the rapid growth occurring in countries such as Brazil, where interest rates are significantly higher than in most other countries where Massey-Ferguson operates.

The tax rate was 36 per cent of pre-tax profit for 1975, compared to 37 per cent for 1974 and 41 per cent for 1973. The relationship between income taxes and pre-tax profit varies from year to year and is significantly affected by such matters as the varying rates of tax applicable to taxable income of subsidiaries and year-to-year fluctuations in the contribution of each subsidiary company to consolidated income.

Within the finance companies, margins have been maintained at a steady level over the last 5 years with the result that the income from this source has remained constant and was \$4.5 million in 1975. In the case of Associate companies, Massey-Ferguson's share of their income increased from \$0.5 million in 1971 to \$4.5 million in 1975. The greatest growth occurred in Mexico and Spain.

During the past five years, capital expenditures increased from a low of \$27 million in 1971 to a record high of \$170 million in 1975. Total fixed asset additions during this period amounted to \$395 million of which 54 per cent was associated with expansion programs and 27 per cent was for new product introductions. The remainder was predominantly used to maintain or upgrade existing facilities and equipment.

The increased level of capital expenditures over the last three years for additional facilities and for production tooling has had the effect of increasing depreciation and amortization expense by 29 per cent in 1975.

Common Share Prices on the Toronto Stock Exchange
and Dividends Paid
(Canadian Funds)

Quarter Ended:	1975			1974		
	Price High	Price Range Low	Div. Paid	Price High	Price Range Low	Div. Paid
Jan. 31	\$16 ⁵ / ₈	\$12 ¹ / ₈	\$.20	\$24 ³ / ₈	\$15 ¹ / ₂	\$.20
April 30	18 ¹ / ₈	14 ³ / ₈	.20	20 ³ / ₈	15 ¹ / ₂	.20
July 31	18	15 ¹ / ₄	.25	18	15	.20
Oct. 31	18	15 ¹ / ₂	.25	16 ⁷ / ₈	11 ¹ / ₂	.20

Factories — Products Manufactured

Farm Machinery and Industrial & Construction Machinery

Argentina

Rosario (215,000 sq. ft.)
Agricultural Tractors.

Australia

Bundaberg (163,000 sq. ft.)
Sugar Cane Harvesters.

Melbourne (Sunshine) (1,544,000 sq. ft.)
Combines; Mowers; Drills; Hay Rakes; Tillers;
Cultivators; Harrows; Plows; Post-hole
Diggers; Jib Cranes; Multipurpose Blades;
Scarifiers; Subsoilers; Transporters; Loaders;
Backhoes.

Brazil

Canoas (430,000 sq. ft.)
Combines; Plows; Disc Harrows; Planters;
Rotary Cutters; Blade Terracers; Cultivators;
Trailers; Seed Drills; Lime Spreaders;
Transporters; Jib Cranes; Backhoes; ICM
Accessories.

Sao Paulo (436,000 sq. ft.)
Agricultural Tractors.

Sorocaba (111,000 sq. ft.)
Crawler Tractors, ICM Machinery

Canada

Brantford (Combine Plant) (807,000 sq. ft.)
Combines; Combine Cabs.

Brantford (Foundry) (255,000 sq. ft.)
Castings.

Brantford (Implement Plant) (813,000 sq. ft.)
Plows; Harrows; Subsoilers; Mowers; Side
Delivery Rakes; Tillers; Cultivators;
Planters; Grain Boxes; Grain Drills;
Combine and Tractor Components.

Brantford (Stamping Plant) (274,000 sq. ft.)
Steel Stampings (Under Development).

Cambridge (61,000 sq. ft.)
Castings.

Montreal (115,000 sq. ft.)
Wood Office Furniture.

Toronto (2,021,000 sq. ft.)
Balers; Pick-ups; Manure Spreaders; Forage
Harvesters; Tractor Cabs; Combine and
Tractor Components.

Waterloo (286,000 sq. ft.)
Steel Office Furniture.

France

Beauvais (918,000 sq. ft.)
Agricultural Tractors.

Marquette (1,144,000 sq. ft.)
Combines; Balers; Castings; Tractor Cabs;
Components.

Italy

Aprilia (600,000 sq. ft.)
Wheel Loaders; Crawler Tractors; Hydraulic
Excavators.

Como (115,000 sq. ft.)
Tractor Components.

Fabbrico (380,000 sq. ft.)
Agricultural Wheel and Crawler Tractors.

Ravenna (110,000 sq. ft.)
Construction Machinery Components.

Malawi

Blantyre (12,000 sq. ft.)
Hoes; Animal Draft Equipment.

Rhodesia

Bulawayo (56,000 sq. ft.)
Animal Draft Implements; Hoes; Groundnut
Shellers.

South Africa

Potgietersrus (202,000 sq. ft.)
Maize Harvesters; Wheat Tables; Maize and
Bean Threshers; Peanut Pickers and Shellers;
Trailers; Fodder Wagons; Plows; Earth
Scoops; Subsoilers; Rippers; Hammermills;
Fertilizer Spreaders.

Vereeniging (440,000 sq. ft.)
Tractor Accessories; Plows; Harrows;
Cultivators; Tillers; Maize, Cotton and Peanut
Planters; Toolbars; Earth Scoops; Subsoilers;
Rippers; Multipurpose Blades; Combination
Cutter Hammermills; Rotary Cutters; Hay
Rakes; Graders; Grain and Fertilizer Boxes;
Animal Draft Implements; Bulldozer
Attachments; Agricultural Loaders; Buckets;
Industrial Loaders; Dumpers; Trailer
Containerization Systems; Tractor-Trailer-
Transport Systems.

United Kingdom

Baginton (359,000 sq. ft.)
Tractor Components.

Coventry (1,768,000 sq. ft.)
Agricultural and Industrial Tractors; Axles;
Gearboxes; other Components.

Kilmarnock (800,000 sq. ft.)
Combines; Mowers; Tractor Accessories.

Knowsley (250,000 sq. ft.)
Industrial and Construction Machinery.

Manchester (511,000 sq. ft.)
4-Wheel-Drive Agricultural Tractors;
Tractor-Loaders; Tractor-Backhoe-Loaders;
Tractor Components.

United States

Akron (460,000 sq. ft.)
Wheel Loaders; Unitized Tractor-Backhoe-
Loaders; Crawler Dozers and Loaders;
Forestry Skidders; Backhoes; Loaders;
Rough Terrain Forklifts; Agricultural Tractor
Components; Backhoe and Loader Mounting.

Des Moines (570,000 sq. ft.)
4-Wheel-Drive Agricultural Tractors; Corn
Heads; Disc Tillage Implements; Lawn and
Garden Tractors.

Detroit (Southfield) (550,000 sq. ft.)
Agricultural and Industrial Tractors.

Detroit (Van Born) (497,000 sq. ft.)
Tractor Transmission and Axle Assemblies;
Combine Transmissions; Hydraulic Pumps;
Power Steering Pumps; Tractor Components.

Detroit (West Chicago) (314,000 sq. ft.)
Tractor and Combine Transmission and
Axle Components.

Kaukauna (267,000 sq. ft.)
Badger Northland Forage and Feeding
Equipment; Solid and Liquid Manure
Systems.

West Germany

Eschwege (587,000 sq. ft.)
Roller Chain; Gearboxes; Gears; Hydraulic
Cylinders; Combine Axles; Cast Iron and
other Components.

Hanover (2,900,000 sq. ft.)
Wheel Dozers and Loaders; Crawler Tractors;
Hydraulic Excavators; Compactors.

Landau (240,000 sq. ft.)
Tractors and Implements.

Engines

Australia

Dandenong (16,000 sq. ft.)
Industrial Diesel Engine Assembly;
Engine Reconditioning.

Brazil

Sao Paulo (259,000 sq. ft.)
Diesel Engines.

Sao Paulo (Alvarengas) (48,000 sq. ft.)
Diesel Engines.

Sao Paulo (97,000 sq. ft.)
Castings.

United Kingdom

Peterborough (Eastfield) (1,698,000 sq. ft.)
Diesel Engines.

Peterborough (Fletton) (150,000 sq. ft.)
Diesel and Gasoline Engines.

Peterborough (Fletton) (48,000 sq. ft.)
Engine Components.

Peterborough (Queen St.) (108,000 sq. ft.)
Engine Reconditioning.

Peterborough (Walton) (166,000 sq. ft.)
Engine Components.

United States

Canton (597,000 sq. ft.)
Diesel Engines (Under Development).

Farmington (40,000 sq. ft.)
Diesel Engine Assembly.

West Germany

Hanover (250,000 sq. ft.)
Diesel Engines.

Major Parts Warehouses

Argentina (12,000 sq. ft.)

Australia (164,000 sq. ft.)

Brazil (43,000 sq. ft.)

Canada (344,000 sq. ft.)

France (106,000 sq. ft.)

Italy (58,000 sq. ft.)

Mexico (10,000 sq. ft.)

South Africa (132,000 sq. ft.)

United Kingdom (430,000 sq. ft.)

United States (925,000 sq. ft.)

West Germany (182,000 sq. ft.)

Associate Companies and % owned

Argentina

Perkins Argentina S.A.I.C. 26%
Cordoba (161,000 sq. ft.)
 Diesel Engines.

Brazil

CINPAL—Companhia Industrial de Peças Para Autômovies 30%
Sao Paulo (108,000 sq. ft.)
 Forgings.

Piratininga, Implementos Agrícolas Ltda. 40%
Sao Paulo (59,000 sq. ft.)
 Farm Implements.

India

Tractors and Farm Equipment Limited 49%
Madras (193,000 sq. ft.)
 Tractors and Implements.

Italy

Simmel S.p.A. 33%
Castelfranco Veneto (380,000 sq. ft.)
 Crawler Tractor Components.

Mexico

Massey-Ferguson de Mexico S.A. 49%
Queretaro (145,000 sq. ft.)
 Tractors.

Naucalpan de Juarez (52,000 sq. ft.)
 Tool Carriers and Attachments; Cultivators;
 Blades; Disc Plows; Harrows.

Motores Perkins S.A. 21%
Toluca (78,000 sq. ft.)
 Diesel Engines.

Morocco

Comagi 24%
Casablanca (38,000 sq. ft.)
 Tractors.

Peru

Tractores Andinos S.A. 49%
Trujillo (70,000 sq. ft.)
 Tractors.

Motores Diesel Andinos S.A. 24%
Trujillo (108,000 sq. ft.)
 Diesel Engines (Under Development).

Spain

Motor Iberica S.A. 37%
Avila (269,000 sq. ft.)
 Vans.
Barcelona (Lopez Varela) (406,000 sq. ft.)
 Truck and Tractor Components.
Barcelona (Zona Franca) (779,000 sq. ft.)
 Trucks and Tractors.
Barcelona (Montcada) (196,000 sq. ft.)
 Sheet-metal Components.
Ejea (97,000 sq. ft.)
 Farm Implements.
Madrid (Avda. Aragon) (109,000 sq. ft.)
 Diesel Engine Components.
Madrid (Cuatro Vientos) (726,000 sq. ft.)
 Diesel Engines and Trucks.
Noain (187,000 sq. ft.)
 Combines; Balers; Corn Heads.

Operating Companies

Argentina

Massey-Ferguson Argentina S.A.
 Rosario
 Compania Massey-Ferguson S.R.L.
 Buenos Aires

Australia

Massey-Ferguson (Australia) Limited
 Sunshine
 Perkins Engines Australia Pty. Ltd.
 Dandenong

Brazil

Massey-Ferguson do Brasil S.A.
 Sao Paulo
 Motores Perkins S.A.
 Sao Bernardo do Campo
 Progreso Metalrit S.A.
 Sao Paulo

Canada

Massey-Ferguson Industries Limited
 Toronto
 Sunar Limited
 Waterloo
 Kanmet Ltd.
 Cambridge
 Perkins Engines Canada Limited
 Rexdale

Eire

Massey-Ferguson (Eire) Limited
 Dublin

France

Massey-Ferguson S.A.
 Le Plessis-Robinson
 Moteurs Perkins S.A.
 Saint-Denis

Italy

Massey-Ferguson S.p.A.
 Aprilia
 Motori Perkins S.p.A.
 Como

Malawi

Agrimal (Malawi) Limited
 Blantyre

Rhodesia

Rhoplow Limited
 Bulawayo

South Africa

Massey-Ferguson (South Africa) Limited
 Vereeniging
 Safim Manufacturing Limited
 Vereeniging
 Slattery Manufacturing (Proprietary) Limited
 Potgietersrus
 Perkins Engines (Proprietary) Limited
 Johannesburg

United Kingdom

Massey-Ferguson (United Kingdom) Limited
 Coventry
 Massey-Ferguson (Export) Limited
 Coventry
 Massey-Ferguson-Perkins Limited
 London
 Perkins Engines Group Limited
 Peterborough
 Perkins Engines Limited
 Peterborough

United States

Massey-Ferguson Inc.
 Des Moines
 Badger Northland Inc.
 Kaukauna
 Perkins Diesel Corporation
 Canton
 Perkins Engines Inc.
 Farmington

West Germany

Massey-Ferguson-Hanomag Inc. & Co.
 Hanover
 Massey-Ferguson GmbH
 Eschwege
 Gebr. Eicher GmbH
 Forstern
 Perkins Motoren GmbH
 Kleinostheim

Licensedes

Farm Machinery	Engines	ICM
Greece	Bulgaria	India
Japan	Greece	
Kenya	Japan	Other
Malaysia	Pakistan	France
Pakistan	Poland*	Japan
Poland*	S. Korea	
Portugal	Uruguay	
Thailand	Yugoslavia	
Turkey		
Uruguay		
* Under Development		

Directors' Affiliations

Albert A. Thornbrough

*President and Chief Executive Officer
Massey-Ferguson Limited*

Director and Member Executive Committee—
Canadian Imperial Bank of Commerce.
Director—Argus Corporation Limited.

John A. McDougald

*Chairman, Executive Committee
Massey-Ferguson Limited*

Chairman of the Board and President—
Argus Corporation Limited.
Chairman of the Board and Chairman of the
Executive Committee—Dominion
Stores Limited.
Chairman of the Executive Committee and
Vice President—Hollinger Mines Limited.
Director and Member Executive Committee—
Canadian Imperial Bank of Commerce.

The Marquess of Abergavenny

Director—Lloyds Bank Limited, Whitbread
Investment Company Ltd., United Kingdom.
President—Royal Agricultural
Society of England, 1967.
Deputy President—Royal Agricultural
Society of England, 1972.
President—Royal Association of British
Dairy Farmers, 1955 and 1963.

Alex E. Barron

President—Canadian General
Investments Ltd., Toronto, Canada.
Chairman—Canadian Tire Corporation
Limited.
Director—Argus Corporation Limited,
The Canada Trust Company, London Life
Insurance Co., Halliburton Company.

Henry Borden, Q.C.

Director—IBM Canada Ltd., Brascan Limited,
The Huron & Erie Mortgage Corporation,
Canadian Investment Fund Limited, Toronto,
Canada.
Chairman—Canadian Boards, Norwich
Union Insurance Societies.
Past Chairman, Board of Governors—
University of Toronto.
Past President—Royal Agricultural Winter
Fair, Canada.

Charles L. Gundy

Chairman—Wood Gundy, Limited, Toronto,
Canada.
Director—Simpsons Limited,
Simpsons-Sears Limited,
Abitibi Paper Co. Ltd., Canada Cement
Lafarge Ltd., United Corporations Limited.
Hon. Chairman, Board of Trustees—Hospital
for Sick Children, Toronto.

Gilbert W. Humphrey

Chairman—The Hanna Mining Company,
Cleveland, U.S.A.
Chairman, Executive Committee—National
Steel Corporation.
Director—General Electric Company,
General Reinsurance Corporation,
National City Bank, Cleveland, Ohio,
Texaco Inc., Sun Life Assurance
Company of Canada.

John D. Leitch

President—Upper Lakes Shipping Ltd.,
Toronto, Canada.
Director and Vice President—
Canadian Imperial Bank of Commerce.
Director—Dominion Foundries and Steel Ltd.,
Canada Life Assurance Company,
American Airlines Inc.,
Maple Leaf Mills Limited,
Canadian Oxygen Limited.

A. Bruce Matthews

Chairman of Executive Committee—
Canada Permanent Trust Company,
Canada Permanent Mortgage Corporation,
Toronto, Canada.
Executive Vice President and Director—Argus
Corporation Limited.
Director—The Excelsior Life Insurance
Company, Aetna Life & Casualty.

Maxwell C. G. Meighen

Chairman—Canadian General Investments
Ltd., Toronto, Canada, Domtar Limited.
Vice President—The Canada Trust Company.
Director—The Algoma Steel Corp., Ltd.
Vice President and Director—Argus
Corporation Limited.

John E. Mitchell

Executive Vice President Americas—
Massey-Ferguson Limited.
Director—Iowa College Foundation,
Iowa-Des Moines National Bank.
Director and Member Executive Committee—
Farm and Industrial Equipment Institute,
National Association of Manufacturers.

A. M. Runciman

President—United Grain Growers Limited,
Winnipeg, Canada.
Director—The Great-West Life Assurance
Company, Canadian Pacific Limited.
Member, Advisory Committee—
Crown Trust Company.
Honorary Member—Agricultural Institute
of Canada, Manitoba Institute of Agrologists,
Canadian Seed Trade Association, Canadian
Seed Growers Association.
Member—Economic Council of Canada.

John G. Staiger

Senior Vice President—
Massey-Ferguson Limited.
Director and Past Chairman, and President—
Farm and Industrial Equipment Institute.
Member, Board of Directors—Canadian
Opera Company.
Member, Board of Trustees—
Iowa Methodist Hospital.

E. P. Taylor

Chairman—The New Providence
Development Company Limited, Bahamas.
Director—Argus Corporation Limited,
The Royal Bank of Canada,
RoyWest Banking Corporation Ltd.,
Trust Corporation of the Bahamas Ltd.
Chairman—The Royal Bank International Ltd.
International Housing Ltd.

Trumbull Warren

Chairman and President—Rheem Canada
Limited, Hamilton, Canada.
Director, Advisory Board—
Phoenix-London Group.
Director—General Bakeries Ltd., Hendrie
& Co., Acadia Life Ins. Co.
Member—Hamilton Advisory Board,
The Royal Trust Co.
President—Royal Agricultural Winter Fair,
Canada.

Colin W. Webster

Vice Chairman—Canadian Fuel
Marketers Ltd., Montreal, Canada.
Director—Sun Life Assurance Company of
Canada, The Royal Bank of Canada,
Pacific Petroleum Ltd.
Governor Emeritus—McGill University.

The Duke of Wellington

Director—Motor Iberica S. A., Barcelona,
Spain.
Colonel Commanding—The Household
Cavalry, 1959-60.
Governor—Wellington College, United
Kingdom.
County Councillor—Hampshire, 1967-74.
Colonel-in-Chief—The Duke of Wellington's
Regiment.
Hon. Colonel—2nd Bn. The Wessex
Regiment (V).
Deputy Lieutenant for the County
of Hampshire.

Common Shares

Transfer Agents

National Trust Company, Limited
Toronto, Winnipeg, Calgary, Vancouver

Canada Permanent Trust Company
Montreal

The Canadian Bank of Commerce
Trust Company, New York

The British Empire Trust Company,
Limited, London, England

Registrars

Crown Trust Company
Toronto, Montreal, Winnipeg, Calgary,
Vancouver

Morgan Guaranty Trust Company
of New York, New York

Lazard Brothers & Co., Ltd.
London, England

Stock Exchanges

The common shares of Massey-Ferguson Limited are listed on the Toronto, Montreal and Vancouver Stock Exchanges in Canada, on the New York Stock Exchange in the United States and on the London Stock Exchange in England.

These shares have unlisted trading privileges in the United States on the Midwest Stock Exchange in Chicago, the PBW Stock Exchange, the Boston Stock Exchange and the Pacific Coast Stock Exchange. The shares are also traded on the Amsterdam Stock Exchange in the form of Dutch Bearer Certificates.

Preferred Shares

Transfer Agent

Crown Trust Company
Toronto, Montreal, Winnipeg,
Calgary, Vancouver

Registrar

The Canada Trust Company
Toronto, Montreal, Winnipeg,
Calgary, Vancouver

Stock Exchanges

Preferred shares of Massey-Ferguson Limited are listed only on the Toronto, Montreal and Vancouver Stock Exchanges in Canada

The business of Massey-Ferguson

Massey-Ferguson is among the world's largest manufacturers of farm machinery, industrial and construction machinery and diesel engines. About 20 per cent of all agricultural tractors, about 20 per cent of all combine harvesters and about 14 per cent of all multicylinder diesel engines made in the Western World bear the MF or Perkins mark.

These products are made in 87 factories in 30 countries, half of which are developing nations. Of its products, 93 per cent are sold in 190 countries outside Canada.

Availability of the 10-K report. A copy of the company's 10-K report as filed with the United States Securities and Exchange Commission will be sent to shareholders upon written request to the company Secretary.

Le rapport du conseil aux actionnaires en français peut être obtenu sur demande en s'adressant au Secrétaire de la compagnie.

The Annual Meeting of Shareholders will be held in the Canadian Room, Royal York Hotel, Toronto, at 12 noon, March 11, 1976.



Farm Machinery
Industrial and Construction Machinery
Engines

AR53



Massey-Ferguson Limited

Financial Report
6 months ended April 30, 1975



Massey-Ferguson Limited
200 University Avenue, Toronto, M5H 3E4,
Canada



To the shareholders

Consolidated sales for the six months ended April 30, 1975, were U.S. \$1,041.5 million, an increase of 35 per cent over the first half of 1974.

Consolidated net income was \$33.3 million or \$1.82 a share, an increase of 38 per cent, compared to \$24.1 million or \$1.32 a share.

For the second quarter of 1975, sales were \$604.1 million, an increase of 39 per cent over the comparable period of 1974. Net income was \$24.3 million or \$1.33 a share compared to \$17.7 million or 97 cents a share.

Sales of the company's major product lines were at record levels for the first half of 1975. All major market areas showed gains, the most significant being 48 per cent in Africa; 100 per cent in Asia; 39 per cent in Europe; and 58 per cent in Latin America.

Sales in North America, which are recorded on a settlement basis and represent sales to the final customer, exceeded the record levels achieved in 1974 by 15 per cent for the second quarter and by 10 per cent for the first half of the year.

Sales for the six months

	1975	1974	Per Cent Increase (Decrease)
	(Millions of U.S. \$)		
Farm Machinery	\$ 647.1	\$477.1	35.6%
Industrial and Construction Machinery	114.1	87.4	30.5%
Engines	101.3	70.7	43.3%
Parts			
<i>Farm Machinery</i>	98.4	80.3	22.5%
<i>ICM</i>	27.1	17.0	59.4%
<i>Engines</i>	29.9	19.9	50.3%
Total	155.4	117.2	32.6%
Recreation Products	8.6	11.0	(21.8%)
Other Products	15.0	10.3	45.6%
Total	<u>\$1,041.5</u>	<u>\$773.7</u>	<u>34.6%</u>

Cost of goods sold was 77.1 per cent of sales for the first six months compared to 78.5 per cent in 1974. This improvement was due to the higher level of production achieved during the first half of 1975 and to the recovery of cost increases by appropriate price adjustments in most markets.

Depreciation and amortization of production tooling increased by \$3.6 million over the first six months of 1974, a result of major additions to fixed assets and the introduction of new products. Engineering and product development expenses increased by \$6.1 million, reflecting the company's continuing emphasis on new product development.

The income tax rate of 42 per cent in the six months was up from the 38 per cent rate for 1974 as a result of the improvement in sales volume and profitability in certain regional markets.

The net income of 3.2 per cent of sales slightly exceeded the 1974 level of 3.1 per cent.

During the first six months of 1975, interest expense continued to rise and exceeded 1974 by \$30.7 million. A high level of work-in-process inventory to support increased production programs and a continuing imbalance due to supply difficulties have kept borrowings at a high level. In contrast to the decline in interest rates that has taken place during 1975 in North America, particularly in the United States, rates in many countries where the company has heavy borrowings in local currencies remain at high levels; for example, Brazil 30 per cent, Italy 18 per cent and the United Kingdom 12.5 per cent.

Changes in the relative values of a number of currencies during the second quarter resulted in an exchange gain for that quarter of \$1.9 million following an exchange loss of \$1.0 million in the first quarter. The net effect for the first half of 1975 is a gain of \$0.9 million compared with a loss of \$0.8 million in 1974.

During April, \$40 million of preferred shares were issued and sold at par at a price of \$25 a share, with a dividend rate of \$2.50 per annum, Canadian funds. These shares were not registered or offered for sale in the United States.

For most major products, factory output showed good gains during the first six months, assisted by the easing of some supply constraints which were prevalent in 1974. The 1975 tractor production goal of approximately 25,000 additional units and the planned increase in combine harvester production seem to be well on the way to achievement. Diesel engine production in the month of April reached record levels.

Preliminary estimates of farm crop production throughout the world are generally optimistic for 1975, although it is too early to know what the situation will be in North America this year. The winter wheat crop shows good prospects and moisture conditions in the northern great plains of the United States and of Western Canada are satisfactory. On the other hand, the late spring in North America shortened the seeding period in some areas and this could have a negative impact on food and feed grain production.

Agreements were completed by the company during April for production of Massey-Ferguson tractors and Perkins diesel engines in Iran in a large industrial complex being built by the Iranian Government. Massey-Ferguson expects to participate in this major manufacturing activity on a joint venture basis, subject to final approval of the Iranian Government. Initial assembly of tractors has commenced and plans are well advanced for development of productive capacity of 20,000 units annually by 1980.

On May 20, the company announced that it had signed agreements with White Motor Corporation of

Cleveland, Ohio, whereby Perkins Diesel Corporation, a new wholly owned subsidiary of Massey-Ferguson, will take over and operate the diesel engine facility constructed at Canton, Ohio, by White in 1970. Under these agreements, Perkins will acquire all of White's interests in the land, plant, equipment and tooling and will assume all of White's obligations under the lease with the City of Canton. The conversion of the Canton plant to permit assembly and manufacture of Perkins engines is to start shortly. Rights to the White engine models specified in earlier negotiations will become the property of Perkins Diesel Corporation, but there are no immediate plans for their production.

In the current round of labour negotiations with factory workers in the United Kingdom, employees at the Coventry tractor factories have been on strike since May 2. Settlements have been reached at Peterborough, Kilmarnock and Knowsley, and negotiations are continuing at Manchester.

Sales results achieved during the first six months indicate good progress in supplying markets for the company's products and are in keeping with the 1975 objective of sales in excess of \$2 billion. Availability of supply is still the major limitation for most markets and products. Early conclusion of the wage negotiations in Coventry will be of major assistance.

Albert G. Thornhaugh

President and
Chief Executive Officer

June 13, 1975

Consolidated statement of income

(unaudited)

(Thousands of U.S. Dollars)

	Three months ended April 30		Six months ended April 30	
	1975	1974	1975	1974
Net sales by territories				
Europe	\$206,797	\$146,422	\$ 361,772	\$259,595
North America	167,666	145,463	286,418	260,449
Latin America	122,684	71,829	207,441	131,599
Africa	49,700	34,630	87,449	59,034
Asia	33,549	16,629	58,125	29,135
Australasia	23,736	19,129	40,291	33,911
Total net sales	604,132	434,102	1,041,496	773,723
Add				
Interest and sundry income	7,242	4,875	12,959	9,247
Profit on disposal of capital assets	(12)	37	51	184
	611,362	439,014	1,054,506	783,154
Costs and expenses				
Cost of goods sold	460,341	338,346	803,318	607,354
Marketing, general and administrative expenses	66,339	48,966	111,036	89,752
Engineering and product development expenses	13,439	10,543	25,803	19,714
Interest on long-term debt	10,012	3,367	17,746	6,738
Interest on bank and other short-term debt	25,018	14,299	43,991	24,290
Exchange adjustments	(1,918)	760	(858)	767
Minority interest	1,276	1,134	1,869	1,537
	574,507	417,415	1,002,905	750,152
Profit before income taxes and items shown below	36,855	21,599	51,601	33,002
Income taxes	14,564	6,036	21,731	12,418
Profit before items shown below	22,291	15,563	29,870	20,584
Equity in net income of finance subsidiaries	916	1,360	1,752	2,293
Equity in net income of Associate companies	1,075	736	1,650	1,186
Net income	\$ 24,282	\$ 17,659	\$ 33,272	\$ 24,063
Depreciation, and amortization of production tooling included above	\$ 10,428	\$ 8,056	\$ 19,601	\$ 15,991
Common shares outstanding	18,248,850	18,240,350	18,248,850	18,240,350
Net income per common share (in U.S. Dollars)	\$ 1.33	\$ 0.97	\$ 1.82	\$ 1.32